Annual Report 2012

FORNTON

FORNTON GROUP LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code: 1152

Contents

Corporate Information

Board of Directors

Executive directors

Mr. Yam Tak Cheung *(Chairman)*
Ms. Wong Kan Kan, Kandy *(Managing Director)*
Mr. Wong Tat Wai, Derek

Independent non-executive directors

Mr. Wang Wei Hung, Andrew
Mr. Cheng Dickson
Mr. Sin Ka Man

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Headquarter and Principal Place of Business in Hong Kong

Unit A, 32nd Floor
Legend Tower
7 Shing Yip Street
Kwun Tong
Kowloon, Hong Kong

Compliance Adviser

Optima Capital Limited
Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

Company Secretary

Mr. Fong Chu Pong

Authorised Representatives

Ms. Wong Kan Kan, Kandy
Flat B, 39/F
Block 1
Clovelly Court
12 May Road
Hong Kong

Mr. Fong Chu Pong
Rm 3204, Lei Ting House
Lei On Court, Lam Tin
Kowloon, Hong Kong

Bermuda Resident Representative

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Members of the Audit Committee

Mr. Sin Ka Man *(Chairman)*
Mr. Wang Wei Hung, Andrew
Mr. Cheng Dickson

Members of the Remuneration Committee

Mr. Cheng Dickson *(Chairman)*
Ms. Wong Kan Kan, Kandy
Mr. Wang Wei Hung, Andrew
Mr. Sin Ka Man

Members of the Nomination Committee

Mr. Wang Wei Hung, Andrew *(Chairman)*
Mr. Cheng Dickson
Mr. Sin Ka Man

Corporate Information (Continued)

Bermuda Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

Hong Kong Share Registrar and Transfer Office

Union Registrars Limited
18/F., Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wan Chai
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
11/F, The Centre
99 Queen's Road Central
Hong Kong

Auditor

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

Company's Website

www.fornton.com

Stock Code

1152

Chairman's Statement

On behalf of the board (the "Board") of directors (the "Directors") of Fornton Group Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to present the annual results of the Group for the year ended 31 December 2012.

2012 was a tough year for the Group, as well as the export-manufacturing industry as a whole. Unfavorable macroeconomic factors, such as the European sovereign debt crisis and the stagnant economic growth of the United States of America (the "USA"), posed a series of challenges for our industry. However, the Group was able to record an increase in revenue in 2012 of approximately 22.5% to approximately HK$400.0 million, which was principally attributable to the Group's continued effort in soliciting and exploring new customers and providing the customers products of high quality. On the other hand, the gross profit margin of the Group decreased from 24.3% to 19.0% amid the surging cost of production and high inflation rate in the People's Republic of China (the "PRC") as well as the factors as mentioned above.

Although weak purchasing power in the USA and Europe will continue to affect the industry in 2013, we will maintain the same competitive edge that differentiates us from numerous competitors. Our executives and staff will approach business in 2013 with an attitude that resonates with the Company's value —"Quality is key" and "Innovation". Management will also place emphasis on cost control, quality enhancement and growth of the clientele base, as these three key areas are vital to the Group's success. Despite the uncertain and volatile global economic outlook of 2013, I am confident that the Group will be able to endure the tough times ahead, and continue satisfying our customers with quality products.

On behalf of the Board, I sincerely thank the management and staff for their dedication and hard work. Furthermore, I would like to extend my gratitude to the business partners and shareholders of the Group (the "Shareholders") for their continual support and confidence in the Group.

Yam Tak Cheung
Chairman

25 March 2013

Management Discussion and Analysis

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 2012, the Group recorded a turnover of approximately HK$400,035,000, showing an increase of approximately 22.5% from the 2011's turnover of approximately HK$326,624,000, which was mainly attributable to an increase in sales orders from one of the major customers of the Group headquartered in the USA and new customers of the Group headquartered in Europe and Asia.

As compared with turnover in previous year, turnover generated by customers headquartered in the USA and European countries decreased from approximately 66.5% to 65.7% and decreased from approximately 24.5% to 21.8% respectively, whilst Canada and other countries increased over the total turnover of the Group from approximately 5.6% to 5.8%, and increased from approximately 3.4% to 6.7% respectively.

Gross profit of the Group for the year ended 31 December 2012 decreased by approximately 4.2% from approximately HK$79,391,000 in previous year to HK$76,046,000 in 2012. Moreover, the gross profit margin decreased from approximately 24.3% in 2011 to 19.0% in 2012 as a result of worsening of the market conditions and business environment, severe competition of the textile industry in Europe and the USA, ongoing increase in labour cost and general inflation in the PRC.

For the year ended 31 December 2012, the Group recorded a profit of approximately HK$13,738,000, representing an increase of approximately 24.0% as against approximately HK$11,081,000 for the previous year mainly attributable to the one-off listing expenses of approximately HK$8,995,000 incurred for the Company's initial public offering (the "Listing") in the previous year. The effect was partially offset by the decrease in gross profit margin as mentioned above.

Financial Position, Liquidity and capital structure

The Group generally finances its operations with internally generated cash flows, equity financing and with facilities mainly provided by banks in Hong Kong during the year ended 31 December 2012. At 31 December 2012, the Group had aggregate bank borrowings of HK$25,831,000, of which HK$7,786,000 is repayable within one year from the end of the reporting period and HK$18,045,000 is not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities). The Group adopts a prudent funding and treasury policy. The borrowings were mainly denominated in Hong Kong dollars ("HK$"), 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 a Director and a related company, which are non-interest bearing, all of the Group's borrowings are on a floating rate basis.

As at 31 December 2012, the Group recorded total assets of approximately HK$206,359,000, which were financed by equity of approximately HK$139,241,000 and liabilities of approximately HK$67,118,000. The gearing ratio of total borrowings as a percentage of total capital and reserves attributable to Shareholders was 20.2% (2011: 30.7%). The Group had total cash and bank balances of approximately HK$90,215,000. Deposits amounting to HK$3,000,000 have 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 increased from 1.86 times as at 31 December 2011 to 2.46 times as at 31 December 2012.

Contingent Liabilities

On 16 November 2011, the High Court made a judgement (the "Judgement") in favour of a subsidiary of the Group to dismiss a claim from a supplier (the "Supplier").

On 23 July 2012, the Supplier has filed a notice of appeal against the Judgement (the "Appeal") and the Appeal was heard on 8 March 2013.

On 14 March 2013, the Court of Appeal ordered that the Appeal is allowed and the Judgement is set aside. The Court of Appeal also ordered that unless the dispute between the Supplier and the subsidiary of the Group can be settled by other means, the dispute should be remitted for a re-trial by another judge.

Based on the legal advice, the Directors are of the opinion that (i) the Group has meritorious defenses against the Supplier; and (ii) the amounts involved in the claim is not material; therefore no provision for the claim has been made in the consolidation financial statements for the year ended 31 December 2012. In additions, the claim is not expected to have material impact on the Group.

Use of Proceeds

The Company has set out the intended use of the net proceeds from the Listing of approximately HK$39,700,000 in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 18 October 2011 (the "Prospectus"). Approximately HK$17,300,000 was at the time of the Listing allocated to the proposed construction of the new production factory on a piece of land located in Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC (the "Land"). As a result of the disposal of the Land as detailed in the announcement of the Company dated 2 March 2012, the Company has reallocated the said HK$17,300,000 to general working capital purpose. As at 31 December 2012, the unused proceeds of HK$18,600,000 were deposited in the 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 2012:

	Original intended use of proceeds	Revised intended use of proceeds	Net proceeds (HK$ million)	As at 31 December 2012 Utilised amount (HK$ million)	As at 31 December 2012 Unutilised amount (HK$ million)
1	construction of new production factory on the Land	reallocated as general working capital	17.3	9.6	7.7
2	acquisition of an additional 220 sets of computerised knitting machines	remaining unchanged	18.1	7.2	10.9
3	enhancing the Group's product design and development capabilities and sales and merchandising capabilities	remaining unchanged	1.5	1.5	—
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$. With production plants and office located in the PRC and Hong Kong, operating expenses of the Group are primarily denominated in HK$, 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 year ended 31 December 2012 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 2012, 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 in respect of the directors and senior management are reviewed regularly by the directors and by the remuneration committee respectively. Remuneration packages 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 (the "Shareholders") 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 2012, no share options were granted by the Company since the adoption of the Scheme.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have other plans for material investments and capital assets.

SIGNIFICANT INVESTMENT HELD

Except for investment in subsidiaries, during the year ended 31 December 2012, the Group did not hold any significant investment in equity interest in any company.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

For the year ended 31 December 2012, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

OUTLOOK

The major customers of the Group are well-recognized international apparel brand owner of which products are mainly exported to the USA and the European countries. There might be some downward pressure on both the sales volume and selling prices of the Group's products in 2013 as a result of the uncertain macroeconomic environment including the recent events in the Euro zone. On the other hand, it is expected that the Group's operating cost will be increased due to continuing inflation in the PRC. The operating environment of the Group is likely to remain challenging in 2013. The Group will continue to focus on product quality by manufacturing novel, complicated designs to attract new customers and cost control.

Directors and Senior Management

Board of Directors

Executive Directors

Mr. Yam Tak Cheung ("Mr. Yam"), aged 51, was appointed as executive Director and Chairman of the Board on 11 October 2011. He is one of the co-founders of the Group. Mr. Yam is primarily responsible for the overall corporate strategic planning of the Group. He is a professional investor and has investments in a number of companies whose shares are listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Yam obtained his bachelor degree of Science from the University of Toronto majoring in Computer Science and Actuarial Science in June 1983. Mr. Yam is the husband of Madam Wong, brother-in-law of Mr. Wong and a director of Integrated Asset Management (Asia) Limited, a substantial shareholding of the Company within the meaning of Part XV of the SFO.

Ms. Wong Kan Kan Kandy ("Madam Wong"), aged 50, was appointed as executive Director on 11 October 2011 and she is one of the co-founders of the Group. Madam Wong has over 28 years of experience in the management and operation of textile and knitting business. In 1983, Madam Wong joined a textile company owned by her father until 1993 when she resigned from such company and in late 1993/early 1994 commenced her own business together with her husband, Mr. Yam, by setting up Fornton Holdings Company Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company in 1993. To cope with the business development and to establish a manufacturing arm in the PRC, Madam Wong invited her brother and husband to set up Nice Regent Industries Limited ("Nice Regent"), a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company in 1995. Madam Wong is primarily responsible for the overall corporate strategic planning and business development of the Group. Madam Wong obtained her bachelor degree of Arts from University of Toronto majoring in Commerce in November 1983. Madam Wong is the wife of Mr. Yam, sister of Mr. Wong and a director of Ever Rosy Limited, a substantial shareholding of the Company within the meaning of Part XV of the SFO.

Mr. Wong Tat Wai Derek ("Mr. Wong"), aged 43, was appointed as executive Director on 11 October 2011 and he is one of the co-founders of the Group. Mr. Wong has over 17 years of experience in the management and operation of textile and knitting business. Since the establishment of Nice Regent in 1995, Mr. Wong has been involved in the overall corporate strategic planning and daily management of manufacturing of the Group. Mr. Wong is the brother of Madam Wong, brother-in-law of Mr. Yam and a director of Premier Wise Limited, a substantial shareholding of the Company within the meaning of Part XV of the SFO.

Independent non-executive Directors

Mr. Wang Wei Hung Andrew, aged 57, was appointed as independent non-executive Director on 11 October 2011. He was admitted as Solicitor of the High Court in Hong Kong in January 1982 and has over 30 years of experience in the legal sector. Mr. Wang was the Head of Legal and Compliance Department of China Development Bank Corporation Hong Kong Branch until September 2011. Before joining China Development Bank Corporation Hong Kong Branch in 2010, he was the Partner of the Finance & Projects Group of DLA Piper Hong Kong between the period from 2006 to 2009. Mr. Wang is also a Notary Public since 1992. Actively involved in Public Sector Advisory and Statutory Bodies, he is Chairman of Residential Care Homes (Elderly Persons) Appeal Board, Chairman of Appeal Tribunal Panel (Buildings), Member of Notaries Public Disciplinary Tribunal Panel. Mr. Wang is a Fellow of the Hong Kong Institute of Directors and was appointed as an arbitrator of the International Economic and Trade Arbitration Commission. In 2005, he was invited by former President Bill Clinton to participate as a business leader at the Clinton Global Initiative held in New York 2005.

Mr. Cheng Dickson, aged 43, was appointed as independent non-executive Director on 11 October 2011. Mr. Cheng is currently an executive director of Mizuho Securities Asia Limited. Prior thereto, he worked in JP Morgan between 1994 and 1996. In December 1995, he was promoted to TCRM Professional in its Global Markets Department. Between 1996 and 2000, Mr. Cheng worked in the Securities Lending Department of The Bank of New York, Hong Kong Branch. From 2000 to 2002, he worked in BOC International Holdings Limited and before he left BOC International Holdings Limited, he was the Assistant Vice President of BOCI Asia Limited. On 19 August 2002, he joined ICEA Capital Limited and worked in ICEA Capital Limited until 31 October 2005 when he was a Senior Vice President of its Investment Banking Division. Mr. Cheng then joined Mitsubishi UFJ Securities (HK) Capital, Limited in November 2005 and he worked there until June 2008 when he was an executive director of its Capital Markets Department in the Investment Banking Division. Mr. Cheng has more than 16 years of experience in investment banking industry. Mr. Cheng obtained his bachelor degree of art in University of Toronto majoring in economics in June 1994 and master degree of applied finance in Macquarie University in Australia in November 2000.

Mr. Sin Ka Man, aged 45, was appointed as independent non-executive Director on 11 October 2011. Mr. Sin has over 20 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He became an associate member of The Hong Kong Institute of Certified Public Accountants (the "HKICPA") (formerly known as Hong Kong Society of Accountants) in January 1996, a fellow member of the Association of Chartered Certified Accountants in July 1997 and a certified practising accountant of the CPA Australia in December 2000. Mr. Sin obtained his bachelor degree in Social Sciences from the University of Hong Kong in December 1989, master degree in Finance from the University of Strathclyde, the United Kingdom in November 1993 and a master degree in Accounting from Curtin University of Technology, Australia in June 1998.

Mr. Sin is currently the company secretary of Huayu Expressway Group Limited (Stock Code: 1823), a company listed on the Main Board. Mr. Sin serves as an independent non-executive director of China Motion Telecom International Limited (Stock Code: 0989), Chinese People Holdings Company Limited (Stock Code: 0681), PNG Resources Holdings Limited (formerly known as LeRoi Holdings Limited) (Stock Code: 0221), Xtep International Holdings Limited (Stock Code: 1368) and Sino Haijing Holdings Limited (Stock Code: 1106), all of which are currently listed on the main board of the Stock Exchange.

SENIOR MANAGEMENT

Senior management of the Group

Mr. Fong Chu Pong, aged 32, was appointed as assistant financial controller of the Company in June 2011 and was promoted to chief financial officer and the company secretary of the Group in February 2013. He is responsible for the financial management, internal control and risk management of the Company. Mr. Fong has more than 9 years of experience in auditing, accounting and financial management. Prior to joining the Group, he has worked in accounting firms specializing in assurance and business advisory services for 6 years and subsequently worked as finance manager in a company providing telecommunications services until June 2011. Mr. Fong obtained his bachelor degree in Accountancy from The Hong Kong Polytechnic University in 2003 and became a member of the Association of Chartered Certified Accountants in 2009.

Ms. Wong Wai Yi, aged 48, was appointed as merchandising director of the Group in October 2012 and responsible for leading the Group's merchandising department. Ms. Wong has more than 25 years working experience in fashion industry and covering the whole supply chain from manufacturing to retail for both of markets of the USA and European countries. Prior to join the Group, she held numerous sales and marketing and general management positions at various knitwear companies including Gap International Sourcing (Holdings) Ltd and Jones International Limited. Ms. Wong obtained her honours bachelor degree from Wilfrid Laurier University, Canada in 1987.

Ms. Ng Wing Yan, aged 31, design and development manager of the Group, has joined the Group since April 2008. Ms. Ng is primarily heading the Design and Development department of the Group and responsible for product design and development. She has 8 years of experience in the fashion and knitwear industry. Prior to joining the Group, Ms. Ng has held fashion designer position in various companies including knitting manufacturing companies and ladies wear retailer. Ms. Ng obtained her bachelor degree of Arts (Honors) majoring in Fashion and Textile from The Hong Kong Polytechnic University in October 2009.

Senior management of the production factories in the PRC

Mr. Yu Wei Hao, aged 45, was appointed as manager of production department in 東莞大朗巷尾豐臨針織廠 (the "Processing Factory") in February 2013. Mr. Yu is responsible for leading the Group's production in the Processing Factory. Mr. Yu has over 28 years of experience in the knitwear manufacturing industry. Prior to joining the Group, Mr. Yu has held numerous production positions (including supervisor of production department and production technical director) at various knitwear manufacturing factories.

Mr. Liu Shi Fa, aged 40, was appointed as supervisor of production department in the production factory at Changping Town, Dongguan City, Guangdong Province, the PRC (the "FC Factory") in July 2009. Mr. Liu is responsible for leading the Group's production department in the FC Factory. Mr. Liu has over 22 years of experience in the knitwear manufacturing industry. Prior to joining the Group, Mr. Liu has held numerous production positions (including production technical director) at various knitwear companies.

Ms. Zhang Yue Fei, aged 44, was appointed as manager of quality assurance department of the Group in June 2009. Ms. Zhang is primarily heading the quality assurance department of the Group. Ms. Zhang has over 27 years of experience in the knitwear manufacturing industry. Prior to joining the Group, Ms. Zhang has held numerous quality assurance positions (including manager of quality assurance department) at various knitwear companies.

Corporate Governance

The Board and management are committed to achieve high standards of corporate governance to safeguard the interests of the Shareholders and to enhance its transparency and accountability. The Group has adopted the practices that has complied with all the code provisions as set out in Appendix 14 — Corporate Governance Code and Corporate Governance Report ("CG Code") of the Listing Rules. The Group will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business. It will review its corporate governance practices regularly to ensure compliance with the CG Code.

Board of Directors

The Board comprises three executive Directors and three independent non-executive Directors. Each of the Directors has entered into a service contract on 11 October 2011 with the Company for a term of two years. All Directors including the Chairman are required to retire from office by rotation and subject to re-election by the Shareholders at annual general meeting at least once every 3 years. Under the Company's Bye-laws, one third of the directors, must retire and be eligible for re-election at each annual general meeting. As such, no director has a term of appointment longer than two years. The Company has received annual confirmation of independence from each of the independent non-executive Directors pursuant to the CG Code and Rule 3.13 of the Listing Rules and considers that all independent non-executive Directors are independent. Within the three independent non-executive Directors, at least one of them possesses the appropriate professional qualifications, accounting or related financial management expertise.

The members of the Board for the year ended 31 December 2012 were:

Executive Directors

Mr. Yam Tak Cheung *(Chairman)*
Ms. Wong Kan Kan, Kandy *(Managing Director)*
Mr. Wong Tat Wai, Derek

Independent non-executive Directors

Mr. Wang Wei Hung, Andrew
Mr. Cheng Dickson
Mr. Sin Ka Man

Mr. Yam Tak Cheung is the spouse of Ms. Wong Kan Kan, Kandy. Mr. Wong Tai Wai, Derek is the brother of Ms. Wong Kan Kan, Kandy and the brother-in-law of Mr. Yam Tak Cheung.

The Chairman and Managing Director of the Company are two distinct and separate positions, which are held by Mr. Yam Tak Cheung and Ms. Wong Kan Kan, Kandy, respectively, both being executive Directors.

The Board is responsible for promoting the success of the Group and its business by leading and supervising the Company's affairs. The Board is responsible for determining the Group's objectives, overall strategies and policies, approving business plan, evaluating operating, instilling corporate culture and financial performance. Its role is clearly separated from that of the senior management.

The Board has delegated the day-to-day operation responsibility of the Group to executive Directors and senior management. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference. Biographical details of and the relationship between the directors are set out in the section headed "Directors and Senior Management" of this annual report.

Nomination of Directors

The Board is responsible for the formulation of nomination policies, making recommendations to the shareholders for re-election, providing sufficient and accurate biographical details of directors to enable the Shareholders to make an informed decision on the re-election, and where necessary, nominating appropriate persons to fill in causal vacancies or as additions to the Board. The Chairman from time to time reviews the composition of the Board with particular regard to ensuring that there are an appropriate number of Directors on the Board independent of management. He also identifies and nominates qualified individuals for appointment as new Directors. When considering appointment of new Directors, the Board will take into consideration of criteria such expertise, experience, integrity and commitment.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Continuous Professional Development

Pursuant to the revised CG Code which has come into effect from 1 April 2012, all Directors and company secretary should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2012, all Directors and company secretary confirmed that they have complied with the CG Code.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with the required standard as set out in the Model Code regarding securities transactions by the directors during the year ended 31 December 2012.

Nomination Committee

The Company established nomination committee of the Company (the "Nomination Committee") on 11 October 2011 which is primarily responsible for making recommendations to the Board regarding the Group's engagement of appropriate directors and managerial personnel (including the expertise, experience, integrity and commitment) to complement the Company's corporate objectives and strategies. The terms of reference of the Nomination Committee were posted on the Company's website.

The Nomination Committee comprises three independent non-executive Directors, namely, Mr. Wang Wei Hung, Andrew, Mr. Cheng Dickson and Mr. Sin Ka Man and is chaired by Mr. Wang Wei Hung, Andrew.

During the year ended 31 December 2012, the Nomination Committee had held one meeting and the Nomination Committee has reviewed the structure, size and composition of the Board, and recruitment procedure of Executive Directors and senior management.

Remuneration Committee

The Company established remuneration committee of the Company (the "Remuneration Committee") on 11 October 2011 which is primarily responsible for making recommendations to the Board regarding the Group's policies and structure for remuneration of Directors and senior management of the Group; determining the remuneration packages of Directors and senior management of the Group; and reviewing and approving their performance-based remuneration. The terms of reference of the Remuneration Committee were posted on the Company's website.

The Remuneration Committee comprises Mr. Cheng Dickson, Ms. Wong Kan Kan, Kandy, Mr. Wang Wei Hung, Andrew and Mr. Sin Ka Man and is chaired by Mr. Cheng Dickson.

During the year ended 31 December 2012, the Remuneration Committee had held one meeting and the Remuneration Committee has reviewed the remuneration policy and structure relating to Directors and senior management of the Group.

Audit Committee

The Company established audit committee of the Company (the "Audit Committee") on 11 October 2011 which is primarily responsible for overseeing the relationship between the Company and its external auditor in relation to the matters coming within the scope of the Group's audit; reviewing the Group's financial reporting process, adequacy and effectiveness of the Group's internal control system and risk management system. The terms of reference of the Audit Committee which describe the authorities and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the HKICPA and were posted on the Company's website.

The Audit Committee comprises Mr. Sin Ka Man, Mr. Wang Wei Hung and Mr. Cheng Dickson and is chaired by Mr. Sin Ka Man.

During the year ended 31 December 2012, the Audit Committee had held three meeting and the Audit Committee reviewed the interim and annual results and the interim and annual reports; met with external auditor to ensure appropriate accounting principles and practices adopted by the Group; and assisted the Board in meeting its responsibilities for maintaining an effective system of internal control.

Attendance of meetings

The attendance record for each of the directors at the Board meeting during the year ended 31 December 2012 set out below.

	Attendance/Number of meetings			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Yam Tak Cheung	5/5	—	—	—
Ms. Wong Kan Kan, Kandy	5/5	—	1/1	—
Mr. Wong Tat Wai, Derek	5/5	—	—	—
Independent Non-executive Directors				
Mr. Wang Wei Hung, Andrew	4/5	1/3	1/1	1/1
Mr. Cheng Dickson	5/5	3/3	1/1	1/1
Mr. Sin Ka Man	5/5	3/3	1/1	1/1

The Company will adopt the practice of holding Board meetings regularly for at least four times a year at approximately quarterly intervals. At least 14 days' notice will be given for a regular Board meeting to give all Directors an opportunity to attend. For all other Board meetings, reasonable notice will be given. Pursuant to code provision A.1.1 of the CG Code, the Board should meet regularly and Board meetings should be at least four times a year.

Directors' and Auditor's Responsibilities for the Accounts

The Directors acknowledge responsibilities for overseeing the preparation of the financial statements of the Group for the year ended 31 December 2012 which should give a true and fair view of the state of affairs and of the results and cash flows of the Group on a going concern basis.

The Directors' responsibilities in the preparation of the financial statements of the Group and the auditor's responsibilities are set out in the independent auditor's report.

Internal Control

The Board is responsible for overseeing the Group's internal control system and ensuring that a sound and effective internal control system is maintained. The Company has engaged SHINEWING Risk Services Limited ("SHINEWING Risk Services") to conduct review and make recommendations for the improvement and strengthening of the internal control system. SHINEWING Risk Services has reviewed the major internal controls and measures, including financial, operational and compliance as well as risk management and has made relevant recommendations for improvement of the internal control system to the Board. Any material non-compliance or failures in internal controls maintained by the Group and relevant recommendations for improvements are reported to the Audit Committee.

The Board has to be fully responsible for the stability and effectiveness of the systems of internal control and with management of the Group. It is also responsible for ensuring that recommendations made by the internal audit function and SHINEWING Risk Services are properly implemented. The Board recognizes that the Group's internal control system plays a key role in the management of risks, and the assurance of continued compliance with laws and regulations by the Group.

The Audit Committee has kept under review the system of internal control. Based on review undertaken together with reports submitted by the management and SHINEWING Risk Services, the Audit Committee will provide the Board with advice on the adequacy of the Group's internal control system, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, in order to ensure that an effective internal control system is put in place. During the year under review, the Board considers that the Group has complied with the provisions on internal controls as stipulated in the CG Code. The Board is satisfied that the Group's internal control system including financial, operational and compliance controls and risk management functions as appropriate to the Group have been put in place and that no significant areas of improvement which are required to be brought to the attention of the Audit Committee have been revealed.

Auditor's Remuneration

The fees in relation to the audit and non-audit services provided by SHINEWING (HK) CPA Limited, the external auditor, to the Company and its subsidiaries for the year ended 31 December 2012 is analysed below:

Type of services provided by the external auditor

	Fee HK$'000
Audit service	760
Non-audit services	
Review of continuing connected transaction	10
Review of preliminary announcement of results	10
Review of interim report	100

How Shareholders Can Convene A Special General Meeting and Putting Forward Proposals at Shareholders' Meetings

Pursuant to the bye laws of the Company, any one or more Shareholder holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the company secretary by mail at Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Procedures By Which Enquiries May Be Put To The Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary by mail at Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong or by email at info@fornton.com. The company secretary forwards communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the managing director of the Company.

During the year ended 31 December 2012, there has been no significant change in the Company's constitutional documents.

Communications With Shareholders And Investors

General meeting of the Company provides a communication channel between the Shareholders and the Board that the shareholders of the Company are encouraged to participate in the Company's annual general meeting and any other meetings for any enquiries about the Company's performance.

The Company also maintains a website at www.fornton.com to disseminate information and updates on the Company's business developments and operations, financial information, corporate governance practices and other shareholders information to Shareholders as well as investors.

Report of the Directors

The Directors present their report together with the audited financial statements of the Company and of the Group for the year ended 31 December 2012.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 37 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 29 to 88 of the annual report.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012.

Five Year Financial Summary

The result, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, are summarized on pages 89 to 90 of this report.

Leasehold Land

Details of the leasehold land of the Group for the year ended 31 December 2012 are set out in note 18 to the financial statements.

Plant and Equipment

Details of movements in the plant and equipment of the Group during the year are set out in note 17 to the financial statements.

Share Capital

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in notes 28 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda.

Purchase, Sale or Redemption of the Shares

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any Shares during the year ended 31 December 2012.

Tax Relief

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2012, the Company's reserves available for cash distribution and distribution in specie were HK$139,241,000. In addition, in accordance with the Bermuda Companies Act 1981, the Company's share premium account, in the amount of HK$43,607,000, are distributable in the form of fully paid bonus shares.

Interest Capitalised

No interest was capitalised by the Group during the year ended 31 December 2012.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and suppliers were as follows:

(i) The aggregate amount of sales attributable to the Group's five largest customers represented 79.7% of the total sales of the Group for the year. The sales attributable to the Group's largest customer represented 63.8% of the Group's total sales for the year.

(ii) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 48.7% of the total purchases of the Group for the year. The purchases attributable to the Group's largest supplier represented 17.5% of the Group's total purchases for the year.

As far as the Directors are aware, neither the Directors, their respective associates nor any substantial shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The Directors during the year ended 31 December 2012 were:

Executive Directors:

Mr. Yam Tak Cheung *(Chairman)*
Ms. Wong Kan Kan, Kandy *(Managing Director)*
Mr. Wong Tat Wai, Derek

Independent Non-Executive Directors:

Mr. Wang Wei Hung, Andrew
Mr. Cheng Dickson
Mr. Sin Ka Man

In accordance with the Company's bye-laws, all executive Directors shall retire from office by rotation, and, being eligible, shall offer themselves for re-election at the forthcoming annual general meeting of the Company.

All independent non-executive Directors are appointed for a term of two years commencing from 11 October 2011. In accordance with the Company's bye-laws, all of them shall retire from office by rotation, and, being eligible, shall offer themselves for re-election at the Company's annual general meeting.

Directors' and Senior Management Biographies

Biographical details of the Directors and the senior management of the Group are set out on pages 9 to 11 of the annual report.

Directors' Service Contracts and Remuneration

Mr. Yam Tak Cheung, Ms. Wong Kan Kan, Kandy and Mr. Wong Tat Wai, Derek had entered into a service agreement with the Company for an initial term of two years, commencing from 18 October 2011 with an annual remuneration of approximately HK$0.54 million, HK$1.37 million and HK$1.25 million respectively. Either party has the right to give not less than three months' written notice to terminate the respective service agreement. In addition, each of these Directors will be entitled to a discretionary bonus to be calculated based on individual performance. Each of these Directors will also be reimbursed all reasonable out-of-pocket expenses properly recurred by him/her in the performance of his/her duties as a director.

Pursuant to the letter of appointment from the Company to each of the independent non-executive Directors dated 11 October 2011, the appointment of each of Mr. Wang Wei Hung Andrew, Mr. Cheng Dickson and Mr. Sin Ka Man is for an initial term of two years commencing from 11 October 2011 with a director's fee of HK$100,000, HK$100,000 and HK$100,000 per annum respectively.

The Board has the general power of determining Directors' remuneration, subject to the authorisation of the Shareholders given at the annual general meeting of the Company each year. The remuneration of the executive Directors is subject to the review of the Company's remuneration committee, and their remuneration is determined with reference to directors' qualifications, experience, duties, responsibilities and performance and results of the Group. As for the independent non-executive Directors, their remuneration is determined by the Board, upon recommendation of the Company's remuneration committee, with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group.

Details of Directors' emoluments during the year are set out in notes 15(a) to the financial statements.

Save as aforesaid, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' Interests in Contracts

Except for those disclosed in section headed "Connected Transactions" below and note 34 to the financial statements, no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted as at the end of the year or at anytime during the year ended 31 December 2012.

At no time during the year ended 31 December 2012 was the Company, any of its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisitions of shares in, or debentures of, the Company or any other body corporate.

Management Contracts

Other than the service contracts of the Directors, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Share Option Scheme

A share option scheme (the "Scheme") was adopted pursuant to the written resolutions of all the shareholders passed on 11 October 2011. The Scheme operates for purpose of providing incentives and rewards to eligible participants who make contributions to the Group's operations and profitability. The Company and any of its associate do not grant/exercise any share option scheme since the date of the Listing, 28 October 2011.

Directors' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2012, the interests and/or short positions of directors in the share, the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

The Company:

Name of director	Capacity and nature of interest	Number of Shares held *(Note 1)*	Percentage of the Company's issued share capital
Mr. Yam Tak Cheung	Interest of controlled corporation *(Note 2)*	104,000,000 (L)	25.00
	Interest of spouse *(Note 3)*	104,000,000 (L)	25.00
Ms. Wong Kan Kan, Kandy	Interest of controlled corporation *(Note 4)*	104,000,000 (L)	25.00
	Interest of spouse *(Note 5)*	104,000,000 (L)	25.00
Mr. Wong Tat Wai, Derek	Interest of controlled corporation *(Note 6)*	104,000,000 (L)	25.00

Notes:

1. *The letter "L" denotes a long position in the directors' interest in the share capital of the Company.*

2. *Mr. Yam Tak Cheung is the beneficial owner of 100% of the issued share capital of Integrated Asset Management (Asia) Limited and is deemed to be interested in the 104,000,000 Shares held by Integrated Asset Management (Asia) Limited under the SFO.*

3. *Mr. Yam Tak Cheung is the spouse of Ms. Wong Kan Kan, Kandy and is deemed to be interested in the Shares held by Ever Rosy Limited.*

4. *Ms. Wong Kan Kan, Kandy is the beneficial owner of 100% of the issued share capital of Ever Rosy Limited and is deemed to be interested in the 104,000,000 Shares held by Ever Rosy Limited under the SFO.*

5. *Ms. Wong Kan Kan, Kandy is the spouse of Mr. Yam Tak Cheung and is deemed to be interested in the Shares held by Integrated Asset Management (Asia) Limited.*

6. *Mr. Wong Tat Wai, Derek is the beneficial owner of 100% of the issued share capital of Premier Wise Limited and is deemed to be interested in the 104,000,000 Shares held by Premier Wise Limited under the SFO.*

Save as disclosed above, as at 31 December 2012, to the best knowledge of the Directors, none of the Directors nor the chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Continuing Connected Transactions

The Company had a continuing connected transaction, details of which are disclosed in accordance with the requirements of Chapter 14A of the Listing Rules.

In view of (i) the need for larger office space to, among other things, establish a showcase room for the sample collection designed by the Group, (ii) the expiry of the previous tenancy in December 2010; (iii) the acquisition of an office located in Kwun Tong by Long Rise Investment Development Limited ("Long Rise") in April 2010 with the total gross area of 8,887 ft^2 which the Directors consider suitable for expansion of the Group in terms of its location and space; and (iv) the costs and time to be saved from searching other possible premises in the public property market, on 30 March 2011, the Group entered into a tenancy agreement (the "Headquarter Tenancy Agreement") with Long Rise, pursuant to which the Group agreed to lease from Long Rise all that Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong as the headquarter of the Company in Hong Kong. The term of the Headquarter Tenancy Agreement is for three years commencing from 1 December 2010. The annual rent is HK$1,800,000, exclusive of rates, Government rent and management fees, with a rent-free period commencing from 1 December 2010 to 31 January 2011. The Directors estimate that the annual rent payable by the Group to Long Rise for each of the three years commencing on 1 January 2011 will not exceed the annual cap of approximately HK$1,800,000. In the event that the Headquarter Tenancy Agreement is renewed, the relevant Listing Rules will be complied with. The rent payable to Long Rise by the Group was determined on an arm's length basis with reference to the prevailing market rent.

Based on the relevant annual cap stated above for the Headquarter Tenancy Agreement, the Directors, at the date of entering into the Headquarter Tenancy Agreement, expect that the consideration ratio, being the only applicable percentage ratio mentioned in Rule 14.07 of the Listing Rules, will on an annual basis be either less than 5% or less than 25% and the annual consideration is less than HK$10,000,000. Therefore, the transactions contemplated under the Headquarter Tenancy Agreement are not subject to independent Shareholders' approval requirements but are subject to reporting and announcement requirements contained in Chapter 14A of the Listing Rules. Given the recurring nature of the transactions contemplated under the Headquarter Tenancy Agreement, the Directors consider that strict compliance with the announcement requirements would be impractical and would add unnecessary administrative costs to the Company.

Accordingly, pursuant to Rule 14A.42(3) of the Listing Rules, the Company has applied for a waiver from strict compliance with the announcement requirements contained in Rule 14A.47 of the Listing Rules upon listing of the Shares, provided that the annual value of the transactions contemplated under the Headquarter Tenancy Agreement does not exceed the relevant annual cap stated above for each of the three financial years ending 31 December 2013. Further details of the continuing connected transactions are disclosed in notes 34(b) of the financial statements.

The independent non-executive Directors have reviewed the above continuing connected transaction and confirmed that it has been entered into by the Company in the ordinary course of its business, on normal commercial terms/on terms no less favorable than terms available from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the Shareholders as a whole.

For the purpose of Rule 14A.38 of the Listing Rules, the Board engaged the SHINEWING (HK) CPA Limited as the auditor of the Company to report on the above continuing connected transaction for the year ended 31 December 2012 in accordance with Hong Kong Standard on Assurance Engagement 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the transaction disclosed by the Group in accordance with Rule 14A.38 of the Listing Rules.

The related party transactions in respect of notes 34(a) of the financial statements do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Directors' Rights to Acquire Shares

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouses or minor children to acquire such rights in any other body corporate.

Report of the Directors (Continued)

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 31 December 2012, the interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position:

Name of Shareholders	**Capacity and nature of interest**	**Number of ordinary shares held** *(Note 1)*	**Percentage of the Company's issued share capital**
Integrated Asset Management (Asia) Limited *(Note 2)*	Beneficial interest	104,000,000 (L)	25.00
Ever Rosy Limited *(Note 3)*	Beneficial interest	104,000,000 (L)	25.00
Premier Wise Limited *(Note 4)*	Beneficial interest	104,000,000 (L)	25.00

Notes:

1. *The letter "L" denotes a long position in the shareholder's interest in the share capital of the Company.*

2. *Mr. Yam Tak Cheung is the beneficial owner of 100% of the issued share capital of Integrated Asset Management (Asia) Limited and is deemed to be interested in the 104,000,000 shares held by Integrated Asset Management (Asia) Limited under the SFO.*

3. *Ms. Wong Kan Kan, Kandy is the beneficial owner of 100% of the issued share capital of Ever Rosy Limited and is deemed to be interested in the 104,000,000 shares held by Ever Rosy Limited under the SFO.*

4. *Mr. Wong Tat Wai, Derek is the beneficial owner of 100% of the issued share capital of Integrated Premier Wise Limited and is deemed to be interested in the 104,000,000 shares held by Premier Wise Limited under the SFO.*

Save as disclosed above, as at 31 December 2012, no person, other than a Director, whose interests are set out under the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares, underlying shares or debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Sufficiency Of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, the Company has maintained the prescribed amount of public float as required under the Listing Rules as all times up to the date of this report (being the latest practicable date prior to the issue of this report).

Corporate Governance

Principal corporate governance practices of the Company and the Group are set out in the Corporate Governance of this Annual Report.

Auditor

SHINEWING (HK) CPA Limited retire and, being eligible, offer themselves for reappointment. A resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD
Yam Tak Cheung
Chairman

Hong Kong
25 March 2013

Independent Auditor's Report

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF FORNTON GROUP LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Fornton Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 88, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Wong Hon Kei, Anthony
Practising Certificate Number: P05591

Hong Kong
25 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Turnover	*9*	**400,035**	326,624
Cost of sales		**(323,989)**	(247,233)
Gross profit		**76,046**	79,391
Other operating income	*9*	**5,457**	3,933
Selling and distribution expenses		**(9,567)**	(9,669)
Administrative and other expenses		**(53,361)**	(57,051)
Finance costs	*11*	**(641)**	(700)
Profit before taxation		**17,934**	15,904
Income tax expense	*12*	**(4,196)**	(4,823)
Profit for the year	*13*	**13,738**	11,081
Exchange differences arising on translation of foreign operations and total other comprehensive income		**565**	2,411
Total comprehensive income for the year		**14,303**	13,492
Earnings per share (HK cents)			
Basic and diluted	*14*	**3.3**	3.4

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current assets			
Plant and equipment	*17*	**41,633**	49,542
Deposit paid for acquisition of plant and equipment		**2,276**	872
Prepaid lease payment	*18*	**—**	13,880
		43,909	64,294
Current assets			
Inventories	*19*	**21,358**	26,987
Prepaid lease payment	*18*	**—**	327
Trade and other receivables	*20*	**50,327**	52,682
Derivative financial instruments	*21*	**550**	700
Tax recoverable		**—**	254
Pledged bank deposits	*22*	**3,000**	3,000
Bank balances and cash	*22*	**87,215**	47,975
		162,450	131,925
Current liabilities			
Trade and other payables	*23*	**38,731**	32,037
Amount due to a director	*24*	**1,047**	3,640
Amount due to a related company	*24*	**—**	711
Bank borrowings	*25*	**25,831**	33,616
Obligations under finance leases — due within one year	*26*	**231**	210
Income tax payables		**271**	815
		66,111	71,029
Net current assets		**96,339**	60,896
Total assets less current liabilities		**140,248**	125,190

Consolidated Statement of Financial Position (Continued)

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current liabilities			
Obligations under finance leases — due after one year	*26*	**953**	158
Deferred taxation	*27*	**54**	94
		1,007	252
		139,241	124,938
Capital and reserves			
Share capital	*28*	**4,160**	4,160
Reserves		**135,081**	120,778
		139,241	124,938

The consolidated financial statements on pages 29 to 88 were approved and authorised for issue by the board of directors on 25 March 2013 and are signed on its behalf by:

Yam Tak Cheung
Director

Wong Kan Kan, Kandy
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 *(Note)*	Exchange translation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2011	2,023	—	8,020	249	53,487	63,779
Profit for the year	—	—	—	—	11,081	11,081
Other comprehensive income for the year:						
Exchange difference arising on translation of foreign operations	—	—	—	2,411	—	2,411
Total comprehensive income for the year	—	—	—	2,411	11,081	13,492
Arising from Reorganisation *(Note 28)*	(1,923)	—	1,923	—	—	—
Issue of new shares *(Note 28(iv))*	1,040	50,960	—	—	—	52,000
Capitalisation issue *(Note 28(iii))*	3,020	(3,020)	—	—	—	—
Cost of issue of new shares	—	(4,333)	—	—	—	(4,333)
At 31 December 2011	4,160	43,607	9,943	2,660	64,568	124,938
Profit for the year	—	—	—	—	13,738	13,738
Other comprehensive income for the year:						
Exchange difference arising on translation of foreign operations	—	—	—	565	—	565
Total comprehensive income for the year	—	—	—	565	13,738	14,303
At 31 December 2012	4,160	43,607	9,943	3,225	78,306	139,241

Note: Other reserve represents the difference between the nominal value of the issued capital of subsidiaries acquired pursuant to a group organisation over the consideration paid for acquiring these subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**17,934**	15,904
Adjustments for:		
Amortisation of prepaid lease payment	**55**	327
Loss/(gain) on change in fair value of derivative financial instruments	**150**	(700)
Depreciation of plant and equipment	**12,510**	9,090
Finance costs	**641**	700
Gain on disposal of plant and equipment	**(289)**	(494)
Gain on disposal of prepaid lease payment	**(1,920)**	—
Government grant	**(107)**	—
Bank interest income	**(190)**	(171)
Loss on written off of plant and equipment	**—**	32
Net investment income from derivative financial instruments	**(1,603)**	(360)
Waiver of trade payables	**—**	(851)
Operating cashflows before movements in working capital	**27,181**	23,477
Decrease (increase) in inventories	**5,629**	(3,872)
Decrease (increase) in trade and other receivables	**2,355**	(3,453)
Increase (decrease) in trade and other payables	**6,743**	(6,357)
Cash generated from operations	**41,908**	9,795
Income tax paid	**(4,526)**	(5,730)
NET CASH FROM OPERATING ACTIVITIES	**37,382**	4,065
INVESTING ACTIVITIES		
Proceed from disposal of prepaid lease payment	**16,072**	—
Receipt from settlement of derivative financial instruments	**1,603**	360
Proceeds from disposal of plant and equipment	**528**	502
Interest received	**190**	171
Deposit paid for acquisition of plant and equipment	**(2,276)**	(872)
Acquisition of plant and equipment	**(2,197)**	(42,920)
Placement of pledged bank deposits	**—**	(3,000)
Acquisition of prepaid lease payment	**—**	(325)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**13,920**	(46,084)

Consolidated Statement of Cash Flow (Continued)

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
FINANCING ACTIVITIES		
Repayments of bank borrowings	**(7,785)**	(43,508)
(Repayment to) advance from a director	**(2,593)**	3,640
(Repayment to) advance from a related party	**(711)**	711
Interest paid	**(641)**	(700)
Repayment of obligations under finance leases	**(442)**	(210)
Proceeds from government grant	**107**	—
Net decrease of trust receipt loans	—	(6,235)
Dividends paid	—	(4,830)
Payment of transaction cost attributable to issue of new shares	—	(4,333)
Proceeds from issue of shares	—	52,000
New bank borrowings raised	—	41,338
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(12,065)**	37,873
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**39,237**	(4,146)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**47,975**	51,562
EFFECT ON FOREIGN EXCHANGE RATES CHANGES	**3**	559
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**87,215**	47,975

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012

1. General Information and Basis of Presentation

Fornton Group Limited ("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 are disclosed in the corporate information of the annual report.

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 Company acquired the entire interests of Wide Reach Limited ("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 consolidated financial statements for the year ended 31 December 2011 have been prepared on the basis that the current group structure had been in existence at 1 January 2011, 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 consolidated results of the Group for the year ended 31 December 2011 include the results of the Company and its subsidiaries with effect from 1 January 2011 or, if later, since their respective dates of incorporation, as if the current group structure had been in existence throughout the year presented. All material intra-group transactions and balances have been eliminated on consolidation.

The Company acts as an investment holding company and the principal activities of its subsidiaries are set out in Note 37.

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

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

In the current year, the Group has applied the following new and revised amendments issued by the HKICPA.

Amendments to Hong Kong Accounting Standards ("HKAS") 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Financial Instrument: Disclosures-Transfers of Financial Assets

The directors of the Company anticipate that the application of above new and revised amendments has had no material impact on the Group's performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle[1]
Amendments to HKFRS 1	Government Loans[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC[#])-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 *Effective for annual periods beginning on or after 1 January 2013.*

2 *Effective for annual periods beginning on or after 1 January 2014.*

3 *Effective for annual periods beginning on or after 1 January 2015.*

4 *Effective for annual periods beginning on or after 1 July 2012.*

\# *IFRIC represents International Financial Reporting Interpretation Committee*

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

Annual Improvements to HKFRSs 2009–2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009–2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

HKFRS 9 Financial Instruments *(Continued)*

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation — Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that the application of these five standards have no significant impact on amounts reported in the consolidated financial statements as all subsidiaries are wholly owned by the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(CONTINUED)*

New and revised Standards on consolidation and disclosures *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the Company anticipate that application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

2. Application of New and Revised Hong Kong Financial Reporting Standards *(Continued)*

Amendments to HKAS 1 — Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

Other than disclosed above, the directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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 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, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

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.

Income and expenses 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.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Merger accounting for business involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

3. Significant Accounting Policies *(Continued)*

Investment in a subsidiary

Investment in a subsidiary is carried on the statement of financial position of the Company at cost less impairment. Provision for impairment in a subsidiary is made when the recoverable amount of the subsidiary is lower than the Company's respective cost of investment.

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainly that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payment

Payment for obtaining land use rights is considered as operating lease payment. Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to consolidated statement of comprehensive income over the period of the rights using the straight-line method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on the initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition. A financial asset is classified as held for trading if:

— it has been acquired principally for the purpose of selling in the near term; or

— it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

— the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

— it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other gains and losses line item in the consolidated statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, and bank balances and cash) are carried at amortised cost, using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets other than those at FVTPL, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 0–45 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expenses are recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to a director and a related company, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

3. Significant Accounting Policies *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequent remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the asset to another entity. If the Group neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalent consist of cash and short-term deposits as defined above.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment losses

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in profit or loss.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Revenue recognition

(i) Sale of goods

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, sales returns and sales related taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits received from customers prior to meeting the above criteria on revenue recognition are included in the consolidated statements of financial position under current liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Revenue recognition *(Continued)*

(ii) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as an expense when employees have rendered service entitling them to the contribution.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange translation reserve.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

4. Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of plant and equipment

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

Impairment loss recognised in respect of plant and equipment

The impairment loss for plant and equipment is recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of plant and equipment have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue with a stable growth rate and a suitable discount rate. The carrying amounts of plant and equipment were approximately HK$41,633,000 at 31 December 2012 (2011: HK$49,542,000). No impairment loss was recognised during the years ended 31 December 2012 and 2011.

Estimated impairment loss recognised in respect of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. The carrying amounts of trade receivables were approximately HK$44,026,000 at 31 December 2012 (2011: HK$42,722,000). No impairment loss was recognised during the years ended 31 December 2012 and 2011.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Estimated allowance for inventories

The management of the Group reviews an ageing analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for such raw materials, work-in-progress and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete and slow-moving items. The carrying amounts of inventories were approximately HK$21,358,000 at 31 December 2012 (2011: HK$26,987,000). No impairment loss was recognised during the years ended 31 December 2012 and 2011.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts which include the bank borrowings in Note 25, obligations under finance leases in Note 26, and net of cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of the review, the directors of the Company consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to adjust the Group's capital structure. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through the issue of new or the redemption of existing debt and new share issues.

6. Financial Instruments

Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	**138,221**	99,804
Derivative financial instruments	**550**	700
Financial liabilities		
Financial liabilities at amortised cost	**65,330**	68,670

7. Financial Risk Management Objectives and Policies

The Group's major financial instruments include trade and other receivables, derivative financial instruments, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to a director and a related company, bank borrowings and obligations under financial leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no material change to the Group's exposure to financial risk or the manner in which it manages and measures the risk.

Market risk

Currency risk

The Group believe that the pegged rate between the US$ and the HK$ will be materially unaffected by any changes in the value of US$ against other currencies. In this respect, the Group considers its exposure to foreign currency risk in respect of HK$ to be insignificant.

The Group has foreign currency operation, which expose the Group to foreign currency risk. The currency giving rise to this risk is primarily Renminbi ("RMB").

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Market risk *(Continued)*

Currency risk *(Continued)*

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting date are as follows:

	Assets		Liabilities	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
RMB	**8,027**	1,073	**15,985**	12,105

The management monitors foreign exchange exposure by using structured forward contracts to manage and hedge significant foreign currency exposures. Such structured forward contracts are not accounted for under hedge accounting (see Note 21 for details).

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in US$ against RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where US$ strengthen 5% against the relevant currency. For a 5% weakening of US$ against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative. The analysis is performed on the same basis for the year ended 31 December 2012 and 2011.

	RMB	
	2012 HK$'000	2011 HK$'000
Impact on post-tax profit for the year	**332**	461

This is mainly attributable to the exposure on outstanding trade and other payables denominated in RMB at the end of the reporting period.

7. Financial Risk Management Objectives and Policies *(Continued)*

Market risk *(Continued)*

Currency risk *(Continued)*

For the outstanding structured forward contracts, if the market forward exchange rate of US$ against RMB had been 5% higher/lower, post-tax profit for the year ended 31 December 2012 would be decreased by approximately HK$7,723,000 (2011: HK$6,228,000)/increased by approximately HK$103,000 (2011: HK$178,000) as a result of the changes in the market forward exchange rate of US$ against RMB.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate obligations under finance leases (see Note 26 for details). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 25 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's pledged bank deposits and bank balances are short-term in nature and the exposure of the interest rate risk is minimal.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the end of reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used for the year ended 31 December 2012 (2011: 50 basis points) when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for the year and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2012 would decrease/increase by approximately HK$108,000 (2011: HK$140,000). This is mainly attributable to the Group's exposure to cash flow interest rate risk on its variable-rate bank borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposure does not reflect the exposure during the year.

7. Financial Risk Management Objectives and Policies *(Continued)*

Credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Company considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the funds are deposited in banks with high credit ratings assigned by international credit rating agencies.

The Group has concentration of credit risk of trade receivables, as 57% of the total trade receivables at 31 December 2012 was due from the Group's largest customer (2011: 61%) and 70% of the total trade receivables at 31 December 2012 was due from the five largest trade customers (2011: 85%).

The Group's concentration of credit risk by geographical locations is mainly in the United States of America (the "USA"), which accounted for 60% of the total trade receivables at 31 December 2012 (2011: 62%).

Liquidity risk

In management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

7. Financial Risk Management Objectives and Policies *(Continued)*

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted cashflows on interest are estimated based on interest rates at the end of the reporting period, and therefore subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

	At 31 December 2012				
	Within one year or on demand HK$'000	**More than one year less than two years HK$'000**	**More than two years less than five years HK$'000**	**Total contractual undiscounted cash flow HK$'000**	**Carrying amount HK$'000**
Non-derivative financial liabilities					
Trade and other payables	**37,268**	**—**	**—**	**37,268**	**37,268**
Amount due to a director	**1,047**	**—**	**—**	**1,047**	**1,047**
Bank borrowings	**26,130**	**—**	**—**	**26,130**	**25,831**
Obligations under finance leases	**283**	**283**	**755**	**1,321**	**1,184**
	64,728	**283**	**755**	**65,766**	**65,330**

	At 31 December 2011				
	Within one year or on demand HK$'000	More than one year less than two years HK$'000	More than two years less than five years HK$'000	Total contractual undiscounted cash flow HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities					
Trade and other payables	30,335	—	—	30,335	30,335
Amount due to a director	3,640	—	—	3,640	3,640
Amount due to a related party	711	—	—	711	711
Bank borrowings	34,020	—	—	34,020	33,616
Obligations under finance leases	240	180	—	420	368
	68,946	180	—	69,126	68,670

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2012

7. Financial Risk Management Objectives and Policies *(Continued)*

Liquidity risk *(Continued)*

Bank loans with a repayment on demand clause are included in the "within 1 year or on demand" time band in the above maturity analysis. At 31 December 2012, the aggregate undiscounted principal amounts of these bank loans amounted to HK$18,045,000 (2011: HK$25,830,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid more than one year but not exceeding five years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$18,339,000 (2011: HK$26,424,000).

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

8. Fair Value

The fair value of financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of current financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

The directors of the Company also consider that the fair value of the long-term portion of liabilities approximates to their carrying amount as they are carried at amortised cost by using the effective interest method.

Foreign currency forward contracts are measured using quoted forward exchange rates yield curves derived from quoted interest rates matching maturities of the contracts.

8. Fair Value *(Continued)*

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2012	2011
	Level 2	Level 2
	HK$'000	HK$'000
Asset		
Derivative financial instruments	**550**	700

The total loss of HK$150,000 (2011: gain of HK$700,000) included in the profit or loss relates to the derivative forward contacts held at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2012

9. 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:

	2012 HK$'000	2011 HK$'000
Turnover		
Sales of knitted products	**400,035**	326,624
Other operating income		
Bank interest income	**190**	171
Gain on change in fair value of derivative financial instruments	**—**	700
Gain on disposal of plant and equipment	**289**	494
Gain on disposal of prepaid lease payment *(Note 18)*	**1,920**	—
Net investment income from derivative financial instruments	**1,603**	360
Sales of scrapped materials	**1,163**	902
Government grant *(Note a)*	**107**	—
Sundry income	**185**	455
Waiver of trade payables *(Note b)*	**—**	851
	5,457	3,933

Notes:

a. *A one-off government grant of approximately HK$107,000 (2011: Nil) has been recognised during the year ended 31 December 2012 which was designated for the Group's contribution to the environment improvement in Guangdong Province, the People Republic of China (the "PRC"). All conditions in respect of the grant had been fulfilled and such government grant was recognised in other operating income for the year.*

b. *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.*

10. 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 Directors as they collectively make strategic decision in allocating the Group's resources and assessing performance.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2012

10. Segment Information *(Continued)*

Geographical information

The Group's operations are located in Hong Kong and the PRC.

The Group's customers are mainly located in the USA.

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

	2012 HK$'000	2011 HK$'000
USA	**262,715**	217,047
Europe	**87,381**	80,087
Canada	**23,002**	18,413
Others	**26,937**	11,077
	400,035	326,624

Less than 1% of the Group's revenue from external customers is derived from Hong Kong (country of domicile) during the years ended 31 December 2012 and 2011.

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

	Non-current assets	
	2012 HK$'000	2011 HK$'000
Hong Kong	**5,187**	2,834
The PRC	**38,722**	61,460
	43,909	64,294

Information about major customers

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

	2012 HK$'000	2011 HK$'000
Customer A	**255,262**	207,164

11. FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest expenses on:		
— bank borrowings wholly repayable:		
— within five years	**425**	290
— after five years	**—**	220
— trust receipt loans	**175**	144
— obligations under finance leases	**41**	30
— other borrowings	**—**	16
	641	700

12. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000
Current tax:		
Hong Kong Profits Tax	**3,858**	4,650
PRC Enterprise Income Tax	**378**	230
	4,236	4,880
Deferred taxation *(Note 27)*	**(40)**	(57)
	4,196	4,823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2012

12. INCOME TAX EXPENSE *(CONTINUED)*

(i) Hong Kong Profits Tax was calculated at 16.5% of the estimated profit for the year ended 31 December 2012 (2011: 16.5%).

(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 (the "Tax Exemption").

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 income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000
Profit before taxation	**17,934**	15,904
Tax at domestic income tax rate of 16.5% (2011: 16.5%)	**2,959**	2,624
Tax effect of expense not deductible for tax purposes	**1,911**	2,697
Tax effect of income not taxable for tax purposes	**(600)**	(390)
Effect of different tax rate of a subsidiary operating in other jurisdictions	**(74)**	(108)
Income tax expense for the year	**4,196**	4,823

Details of the deferred taxation are set out in Note 27.

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2012

13. Profit For The Year

	2012 HK$'000	2011 HK$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments *(Note 15)*	**3,458**	3,010
Salaries and allowances (excluding directors' emoluments)	**25,121**	22,684
Retirement benefit scheme contributions (excluding directors)	**843**	564
Total staff costs	**29,422**	26,258
Auditor's remuneration	**760**	700
Less: over-provision in prior years	**—**	(48)
	760	652
Amortisation of prepaid lease payment	**55**	327
Cost of inventories recognised	**323,989**	247,233
Depreciation of plant and equipment	**12,510**	9,090
Loss on change in fair value of derivative financial instruments	**150**	—
Loss on written off of plant and equipment	**—**	32
Net exchange loss	**1,260**	80
Operating lease rental paid in respect of rented — office premises	**5,331**	3,392
Processing fees *(Note)*	**45,746**	39,475
Sub-contracting fee (included in cost of sales)	**82,391**	82,840

Note:

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

	2012 HK$'000	*2011 HK$'000*
Salaries and allowances	***15,197***	*12,407*
Factory's lease	***1,752***	*1,719*
Labour cost — direct and indirect	***25,534***	*22,053*
Utilities	***3,263***	*3,296*
	30,549	*27,068*
	45,746	*39,475*

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2012

14. Earnings Per Share

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

	2012 HK$'000	2011 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share	**13,738**	11,081

	2012 '000	2011 '000
Number of shares		
Weighted average number ordinary shares for the purpose of basic earnings per share	**416,000**	330,521

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares during the years ended 31 December 2012 and 2011.

The weighted average number of shares in issue during the year ended 31 December 2011 represents the 312,000,000 shares (Note 28(i), (ii) and (iii)) in issue before listing of shares of the Company on the Stock Exchange as if such shares were issued on 1 January 2011, and the weighted average of 104,000,000 (Note 28(iv)) shares issued upon the listing of the Company's shares on the Stock Exchange.

15. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of emoluments paid and payable to the directors of the Company for the year are as follows:

	Year ended 31 December 2012				
	Fees HK$'000	Salaries and other allowances HK$'000	Performance related incentive payments *(Note a)* HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors:					
Ms. Wong Kan Kan, Kandy ("Ms. Wong")	—	1,351	7	14	1,372
Mr. Yam Tak Cheung ("Mr. Yam")	—	520	7	14	541
Mr. Wong Tat Wai ("Mr. Wong")	—	1,224	7	14	1,245
Independent non-executive directors:					
Mr. Wang Wei Hung, Andrew	100	—	—	—	100
Mr. Cheng Dickson	100	—	—	—	100
Mr. Sin Ka Man	100	—	—	—	100
	300	3,095	21	42	3,458

15. Directors', Chief Executive's and Employees' Emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

	Year ended 31 December 2011				
	Fees HK$'000	Salaries and other allowances HK$'000	Performance related incentive payments *(Note a)* HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors:					
Ms. Wong	—	1,351	10	12	1,373
Mr. Yam	—	500	10	12	522
Mr. Wong	—	1,017	10	22	1,049
Independent non-executive directors:					
Mr. Wang Wei Hung, Andrew *(Note b)*	22	—	—	—	22
Mr. Cheng Dickson *(Note b)*	22	—	—	—	22
Mr. Sin Ka Man *(Note b)*	22	—	—	—	22
	66	2,868	30	46	3,010

Ms. Wong is the Chief Executive of the Company and her emoluments disclosed above include those for services rendered by her as the Chief Executive.

None of the directors of the Company waived or agreed to waive any emoluments during the years ended 31 December 2012 and 2011.

Notes:

a. *The performance related incentive payments are determined with reference to the operating results and individual performance during both years.*

b. *Appointed on 11 October 2011.*

15. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(CONTINUED)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two were directors of the Company for the year ended 31 December 2012 (2011: Two). The emoluments of these directors are included in the disclosures in Note 15(a) above. The emoluments of the remaining three (2011: three) individuals were as follows:

	2012 **HK$'000**	2011 HK$'000
Salaries and other allowances	**3,121**	3,378
Performance related incentive payments *(Note)*	**315**	29
Retirement benefit scheme contributions	**28**	24
	3,464	3,431

Note: The performance related incentive payments are determined with reference to the operating results and individual performance during both years.

Their emoluments were within the following bands:

	Number of individuals	
	2012	2011
Not more than HK$1,000,000	**—**	1
HK$1,000,000 to HK$1,500,000	**3**	2
	3	3

During the years ended 31 December 2012 and 2011, no emoluments were paid or payable by the Group to the directors or the five highest paid individuals of the Company as inducements to join or upon joining the Group or as a compensation for loss of office.

16. DIVIDENDS

No dividend has been declared by the Company for the year ended 31 December 2012 (2011: Nil).

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2012

17. Plant and Equipment

	Plant and machinery	Office equipment	Furniture and fixtures	Leasehold improvement	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2011	19,739	12,013	1,979	2,781	3,975	40,487
Additions	41,170	959	135	538	118	42,920
Disposals	(3,340)	(190)	—	—	(814)	(4,344)
Written-off	—	(48)	(2)	—	—	(50)
Exchange realignment	545	24	76	—	6	651
At 31 December 2011	58,114	12,758	2,188	3,319	3,285	79,664
Additions	695	1,716	5	400	1,511	4,327
Disposal	(293)	(45)	—	—	(1,168)	(1,506)
Write-off	—	(2)	—	—	—	(2)
Exchange realignment	751	16	27	—	—	794
At 31 December 2012	59,267	14,443	2,220	3,719	3,628	83,277
ACCUMULATED DEPRECIATION						
At 1 January 2011	10,323	10,372	1,651	211	2,611	25,168
Provided for the year	6,960	707	162	638	623	9,090
Eliminated on disposals	(3,340)	(188)	—	—	(808)	(4,336)
Eliminated on written-off	—	(17)	(1)	—	—	(18)
Exchange realignment	137	4	71	—	6	218
At 31 December 2011	14,080	10,878	1,883	849	2,432	30,122
Provided for the year	10,401	799	91	690	529	12,510
Eliminated on disposal	(293)	(39)	—	—	(935)	(1,267)
Eliminated on written-off	—	(2)	—	—	—	(2)
Exchange realignment	246	8	27	—	—	281
At 31 December 2012	24,434	11,644	2,001	1,539	2,026	41,644
CARRYING VALUES						
At 31 December 2012	34,833	2,799	219	2,180	1,602	41,633
At 31 December 2011	44,034	1,880	305	2,470	853	49,542

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2012

17. PLANT AND EQUIPMENT *(CONTINUED)*

(i) The above items of plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Plant and machinery	20%
Office equipment	20%
Furniture and fixtures	10% to 20%
Leasehold improvement	Over the shorter of term of the lease or 5 years
Motor vehicles	20%

(ii) The carrying values of motor vehicles as at 31 December 2012 included an amount of approximately HK$1,409,000 in respect of assets under finance leases (2011: HK$389,000).

18. PREPAID LEASE PAYMENT

	2012 HK$'000	2011 HK$'000
Prepaid lease payment comprises of leasehold land held in the PRC under medium-term lease and are analysed for reporting purposes as follows:		
Current assets	—	327
Non-current assets	—	13,880
	—	14,207

During the year ended 31 December 2012, the carrying value of the Group's prepaid lease payment amounted to approximately HK$14,152,000 was disposed of to an independent third party.

19. INVENTORIES

	2012 HK$'000	2011 HK$'000
Raw materials	**4,838**	7,727
Work-in-progress	**13,886**	13,060
Finished goods	**2,634**	6,200
	21,358	26,987

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2012

20. Trade and Other Receivables

	2012 HK$'000	2011 HK$'000
Trade receivables	**44,026**	42,722
Other receivables	**3,980**	6,107
Prepayment	**2,321**	3,853
	50,327	52,682

(i) 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.

(ii) An ageing 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:

	2012 HK$'000	2011 HK$'000
0 to 45 days	**40,717**	38,261
46 to 90 days	**2,721**	3,790
91 to 365 days	**48**	671
Over 365 days	**540**	—
	44,026	42,722

(iii) At the end of the reporting period, the analysis of trade receivables that were neither past due nor impaired and past due but not impaired are as follows:

			Past due but not impaired			
	Total HK$'000	Neither past due nor impaired HK$'000	Less than 45 days HK$'000	46 to 90 days HK$'000	91 to 365 days HK$'000	Over 365 days HK$'000
At 31 December 2012	44,026	41,912	1,492	34	48	540
At 31 December 2011	42,722	37,958	4,093	611	60	—

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2012

20. Trade and Other Receivables *(Continued)*

(iii) *(Continued)*

No impairment loss is provided for the trade receivables that are neither past due nor impaired because these receivables are within credit period granted to the respective customers and the management considers the default rate is low for such receivables based on historical information and past experience.

In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. In view of the good settlement history from those receivables of the Group which are past due but not impaired for the years ended 31 December 2012 and 2011, the directors of the Company consider that no allowance is required.

(iv) Included in other receivables in the consolidated statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	2012 **HK$'000**	2011 HK$'000
RMB	**1,083**	860

21. Derivative Financial Instruments

	2012 **HK$'000**	2011 HK$'000
Derivative financial assets not under hedge accounting consists of the fair value of foreign currency forward contracts and are analysed for reporting purpose as follows:		
Current	**550**	700

The derivatives are measured with reference to exchange rates from financial instruments for equivalent instruments.

The Group entered into several non-deliverable structured forward contracts (the "Forward Contracts") denominated in US$ and RMB during the years ended 31 December 2012 and 2011 with a bank. Each of the Forward Contracts comprises 24 forward exchange transactions at relevant determination dates.

21. Derivative Financial Instruments *(Continued)*

The major terms of the foreign exchange contracts outstanding as at 31 December 2012 are as follows:

Notional amount	Maturity	Predetermined exchange rates	Notes
US$800,000	31 May 2012 to 7 May 2014	US$1: RMB6.34	(a)
US$300,000	28 September 2012 to 2 September 2014	US$1: RMB6.41	(b)

(a) Pursuant to the terms of the Forward Contract, on each of the 24 determination dates, the Group will have to sell US$800,000 against RMB at the predetermined exchange rate as disclosed above. If the spot exchange rate of US$ against RMB (the "Spot Rate") is lower than the predetermined exchange rate (the "Condition"), the Group will receive a gain of US$800,000 multiplied by the difference between the Spot Rate at the determination date and the predetermined exchange rate. This Forward Contract will be terminated on any determination date that the accumulative gain reaches RMB560,000.

If the Spot Rate is higher than the predetermined exchange rate, the exposure of the Group is to pay the bank US$800,000 multiplied by the difference between the Spot Rate and the predetermined exchange rate for this Forward Contract. There is no cap on the exposure.

(b) Pursuant to the terms of the Forward Contract, on each of the 24 determination dates, the Group will have to sell US$300,000 against RMB at the predetermined exchange rate as disclosed above. If the Spot Rate is lower than the Condition, the Group will receive a gain of US$300,000 multiplied by the difference between the Spot Rate at the determination date and the predetermined exchange rate. This Forward Contract will be terminated on any determination date that the accumulative gain reaches RMB150,000.

If the Spot Rate is higher than the predetermined exchange rate, the exposure of the Group is to pay the bank US$300,000 multiplied by the difference between the Spot Rate and the predetermined exchange rate for this Forward Contract. There is no cap on the exposure.

The major terms of the foreign exchange contracts outstanding as at 31 December 2011 are as follows:

Notional amount	Maturity	Predetermined exchange rates	Notes
US$2,000,000	2 September 2011 to 2 August 2012	US$1: RMB6.59	(c)
US$2,000,000	4 September 2012 to 2 August 2013	US$1: RMB6.45	(c)
US$500,000	5 December 2012 to 5 November 2013	US$1: RMB6.445	(d)

21. Derivative Financial Instruments *(Continued)*

(c) Pursuant to the terms of two of the Forward Contracts, on each of the 24 determination dates, the Group will have to sell US$1,000,000 against RMB at the respective predetermined exchange rate as disclosed above. If the Spot Rate is lower than the Condition, the Group will receive a fixed amount of RMB30,000 from the bank. These two Forward Contracts will be terminated on the date which is the eleventh time the Condition is satisfied. There will be no early termination if the Condition is satisfied less than eleven times.

If the Spot Rate is higher than the predetermined exchange rate, the exposure of the Group is to pay the bank US$1,000,000 multiplied by the difference between the Spot Rate and the predetermined exchange rate for these two Forward Contracts. There is no cap on the exposure.

During the year ended 31 December 2012, these two Forward Contracts have been terminated after the Condition has been satisfied eleven times.

(d) Pursuant to the terms of the Forward Contract, on each of the 24 determination dates, the Group will have to sell US$500,000 against RMB at the predetermined exchange rate as disclosed above. If the Spot Rate is lower than the Condition, the Group will receive a gain of US$500,000 multiplied by the difference between the Spot Rate at the determination date and the predetermined exchange rate. This Forward Contract will be terminated on any determination date that the accumulative gain reaches RMB200,000.

If the Spot Rate is higher than the predetermined exchange rate, the exposure of the Group is to pay the bank US$500,000 multiplied by the difference between the Spot Rate and the predetermined exchange rate for this Forward Contract. There is no cap on the exposure.

During the year ended 31 December 2012, the Forward Contract has been terminated after the accumulate gain reached RMB200,000.

The loss arising from change in fair value of the foreign currency contracts for the year ended 31 December 2012 was approximately HK$150,000 (2011: gain of HK$700,000).

22. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$3,000,000 have been pledged to secure bank overdrafts, short-term bank loans and undrawn facilities, and are therefore classified as current assets.

The bank balances and cash comprise of cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances for the year ended 31 December 2012 carried interest at the prevailing market rate ranging from 0.001 % to 0.6 % per annum (2011: 0.001% to 0.5% per annum). The pledged deposits carried interest rate ranged from 0.15% to 0.20% per annum during the year ended 31 December 2012 (2011: 0.17% to 0.19% per annum).

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2012

22. Pledged Bank Deposits/Bank Balances and Cash *(Continued)*

The Group's bank balances and cash denominated in RMB amounted to approximately HK$6,944,000 at 31 December 2012 (2011: HK$213,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations.

23. Trade and Other Payables

	2012 **HK$'000**	2011 HK$'000
Trade payables	**19,686**	15,334
Receipt in advance	**1,414**	206
Other payables	**17,582**	15,001
Value added tax payables	**49**	1,496
	38,731	32,037

(i) An ageing analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2012 **HK$'000**	2011 HK$'000
0 to 90 days	**18,966**	14,111
91 to 365 days	**637**	1,211
Over 365 days	**83**	12
	19,686	15,334

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

(ii) Receipt in advance represented advance payments of related sales of goods from customers pursuant to the respective sales contracts.

23. Trade and Other Payables *(Continued)*

(iii) Included in trade and other payables in the consolidated statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	2012 **HK$'000**	2011 HK$'000
RMB	**15,985**	12,105

24. Amounts Due to a Director/a Related Company

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

25. Bank Borrowings

	2012 **HK$'000**	2011 HK$'000
Unsecured:		
Machinery loan *(Note i)*	**22,831**	29,416
Other bank loan *(Note ii)*	**3,000**	4,200
	25,831	33,616
Bank borrowings repayable*:		
Within one year	**7,786**	7,786
More than one year but not exceeding two years	**7,786**	7,786
More than two years but not exceeding five years	**10,259**	18,044
	25,831	33,616
Less: Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (shown under current liabilities)	**(18,045)**	(25,830)
Less: Amounts due within one year shown under current liabilities	**(7,786)**	(7,786)
Amount shown under non-current liabilities	**—**	—

* *The amounts due are based on scheduled repayment dates set out in the loan agreements.*

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2012

25. Bank Borrowings *(Continued)*

Notes:

(i) At 31 December 2012, machinery loans approximately HK$22,831,000 (2011: HK$29,416,000) which carries floating rate at 1 month HIBOR plus 1.1% per annum will be fully repaid in September 2016. The facilities contain a repayment on demand clause.

(ii) At 31 December 2012, the other bank loan approximately HK$3,000,000 (2011: HK$4,200,000) was raised under the Special Loan Guarantee Scheme ("Special loan") of Hong Kong, which carries floating-rate at 1 month HIBOR plus 1.25% per annum, repayable in 60 installments commencing on 31 July 2010. The Special loan will be fully repaid by 31 August 2015. 80% of the principal amount of the special bank loan is guaranteed by the Government of Hong Kong Special Administrative Regions. The facilities contain a repayment on demand clause.

At 31 December 2012 and 2011, the Company provided guarantees in relation to machinery loan, other bank loan and banking facilities granted to certain subsidiaries.

At 31 December 2012, the Group has unused banking facilities of HK$74,000,000 (2011: HK$74,000,000).

26. Obligations Under Finance Leases

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term of these leases is five years (2011: five years).

At the end of the reporting period, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		**Present value of minimum lease payments**	
	2012 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'000
Amounts payable under finance leases:				
Within one year	**283**	240	**231**	210
More than one year, but not more than two years	**283**	180	**243**	158
More than two years, but not more than five years	**755**	—	**710**	—
	1,321	420	**1,184**	368
Less: Future finance charges	**(137)**	(52)	**—**	—
Present value of lease obligations	**1,184**	368	**1,184**	368
Less: Amounts due within one year shown under current liabilities			**(231)**	(210)
Amounts due after one year			**953**	158

26. OBLIGATIONS UNDER FINANCE LEASES *(CONTINUED)*

All obligations under finance leases of the Group bear interest at fixed interest rates. The underlying interest rates of these obligations under finance leases are ranged from 2.9% to 4.37% per annum during the year ended 31 December 2012 (2011: 2.9% per annum). The Group's obligation under finance leases are secured by the lessor's charge over the leased assets. These leases had no terms of renewal or purchase options and escalation clauses.

All obligations under finance leases are denominated in HK$.

27. DEFERRED TAXATION

The movement is deferred tax liabilities during both years are as follows:

	Difference between depreciation allowance and related depreciation HK$'000
At 1 January 2011	(151)
Credited to consolidated statement of comprehensive income during the year *(Note 12)*	57
At 31 December 2011	(94)
Credited to consolidated statement of comprehensive income during the year *(Note 12)*	40
At 31 December 2012	(54)

Under the PRC Enterprise Income Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards (the "Post-2008 Earnings"). Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the Post-2008 Earnings amounting to approximately HK$1,485,000 (2011: HK$631,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

28. Share Capital

The share capital at 1 January 2011 represented the share capital of Wide Reach of US$3,000 (equivalent to approximately HK$23,000), and the aggregate share capital of Fornton Holdings Company Limited ("Fornton Holdings"), Fornton Knitting Company Limited ("Fornton Knitting") and Nice Regent Industries Limited ("Nice Regent") of approximately HK$2,000,000 held by Mr. Yam, Ms. Wong and Mr. Wong as at 1 January 2011.

The share capital of the Group at 1 January 2011 represented the aggregated share capital of Wide Reach, Fornton Holdings, Fornton Knitting and Nice Regent contributed by their equity holders which are the same as the owners of the Company.

The share capital of the Group at 31 December 2012 and 2011 represented the issued and fully paid capital of the Company.

	Number of shares '000	Share capital HK$'000
Authorised		
Ordinary shares of HK$0.01 each as at 13 April 2011*(Note (i))*	10,000	100
Increase in the year *(Note (iii))*	9,990,000	99,900
Ordinary shares of HK$0.1 each as at 31 December 2011 and 31 December 2012	10,000,000	100,000
Issued and fully paid		
Ordinary shares of HK$0.01 each at date of incorporation *(Note (i))*	3	—
Issue in consideration for the acquisition of the issued share capital of Wide Reach *(Note (ii))*	9,997	100
Capitalisation issue *(Note (iii))*	302,000	3,020
Issue of shares upon listing of the Company's shares on the Stock Exchange *(Note (iv))*	104,000	1,040
Ordinary shares of HK$0.01 each as at 31 December 2011 and 31 December 2012	416,000	4,160

Notes:

(i) Upon incorporation, the authorised share capital of the Company was HK$100,000 divided into 10,000,000 ordinary shares of HK$0.01 each, of which 1,000 shares, 1,000 shares and 1,000 shares were allocated and issued nil paid to Integrated Asset Management (Asia) Limited ("IAM"), Ever Rosy Limited ("Ever Rosy") and Premier Wise Limited ("Premier Wise") respectively on 15 April 2011.

(ii) On 11 October 2011, pursuant to a sale and purchase agreement, IAM, Ever Rosy and Premier Wise transferred 3,000 shares, 3,000 shares and 3,000 shares respectively in Wide Reach, being its entire share capital, to the Company and in consideration of and in exchange for which, the Company allotted and issued 3,332,333, 3,332,334 and 3,332,333 shares, credited as fully paid, to IAM, Ever Rosy and Premier Wise respectively and the Company credited as fully paid at par the existing 3,000 nil paid shares. The acquisition of the issued share capital of Wide Reach was accounted for by the Group using merger method and approximately HK$1,923,000 was recognised in other reserve.

28. SHARE CAPITAL *(CONTINUED)*

Notes: (Continued)

(iii) Pursuant to an ordinary resolution passed in the meeting on 11 October 2011, the authorised share capital of the Company was increased from HK$100,000 to HK$100,000,000 by the creation of an additional 9,990,000,000 ordinary share of HK$0.01.

Subject to the share premium account of the Company being credited as a result of the public offering of 104,000,000 ordinary shares on 28 October 2011, the directors of the Company were authorised to capitalise HK$3,020,000 standing to the credit of the share premium account of the company by applying such sum in paying up in full at par allot and issue a total of 9,990,000,000 ordinary shares for the allotment and issue to the shareholders of the Company on the register of the members of the Company at the close of business on 11 October 2011 in proportion to their then respective existing shareholdings in the Company and the directors of the Company allotted and issued such shares as aforesaid and gave effect to the capitalisation.

(iv) On 28 October 2011, 104,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$0.50 per share by way of placing and public offer.

All shares issued during the year rank pari passu in all respects with all shares then in issue.

29. RETIREMENT BENEFIT SCHEMES

The Group participates in the MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution plan and the assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant costs to the scheme, which contribution is matched by employees. Contributions to the MPF Scheme vest immediately and there were no forfeited contributions of the MPF Scheme during both years.

The employees of the Company's subsidiary established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiary is required to contribute certain percentage of its payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the scheme.

The Group made contributions to the retirement benefits schemes of approximately HK$884,000 for the year ended 31 December 2012 (2011: HK$610,000).

30. OPERATING LEASE COMMITMENT

The Group leases certain of its factory premises and offices under operating lease arrangements. Lease for properties are negotiated for terms ranging from one to three years and rentals are fixed. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

30. Operating Lease Commitment *(continued)*

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	**2,590**	5,311
In the second to fifth year inclusive	**—**	2,585
	2,590	7,896

31. Capital Commitment

	2012 HK$'000	2011 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
Plant and equipment	**1,734**	296

32. Major Non-Cash-Transaction

During the year ended 31 December 2012, the Group entered into finance lease arrangements in respect of motor vehicle with a total capital value at the inception of the lease of approximately HK$1,258,000.

33. Contingent Liability

On 16 November 2011, the High Court made a judgement (the "Judgement") in favour of a subsidiary of the Group to dismiss a claim from a supplier (the "Supplier").

On 23 July 2012, the Supplier has filed a notice of appeal against the Judgement (the "Appeal") and the Appeal was heard on 8 March 2013.

On 14 March 2013, the Court of Appeal ordered that the Appeal is allowed and the Judgement is set aside. The Court of Appeal also ordered that unless the dispute between the Supplier and the subsidiary of the Group can be settled by other means, the dispute should be remitted for a re-trial by another judge.

33. CONTINGENT LIABILITY *(CONTINUED)*

Based on the legal advice, the directors of the Company is of the opinion that (i) the Group has meritorious defenses against the Supplier; and (ii) the amounts involved in the claims are not material; therefore no provision for this claim has been made in the consolidation financial statements for the year ended 31 December 2012. In additions, the claim is not expected to have material impact on the Group.

34. RELATED PARTY TRANSACTIONS

In addition to those balances with related parties disclosed in Note 24, the Group has entered into the following significant transactions with related parties during the year.

(a) Compensation of key management personnel

The remuneration of key management personnel during the year ended 31 December 2012 and 2011 are as follows:

	2012 **HK$'000**	2011 HK$'000
Short-term employee benefits	**6,552**	6,305
Post-employment benefits	**70**	70
	6,622	6,375

The remuneration of the directors and key management personnel of the Company 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**	**2012** **HK$000**	2011 HK$000
Long Rise Investment Development ("Long Rise")	Rental charged therefrom	**1,700**	1,700

The above transaction was at terms determined and agreed by the Company and Long Rise, Ms. Wong has beneficial interests in Long Rise.

35. 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 (the "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 participates.

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 years ended 31 December 2012 and 2011.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Statement of financial position of the Company at the end of the reporting period is as follows:

	Notes	**2012 HK$'000**	2011 HK$'000
Non-current asset			
Investment in a subsidiary		**81,370**	81,370
Current assets			
Other receivables		**254**	227
Amount due from subsidiaries	*(a)*	**29,192**	18,456
Bank balances and cash		**7,711**	20,189
		37,157	38,872
Current liabilities			
Other payable		**57**	129
Amount due to subsidiaries	*(a)*	**1,071**	1,071
		1,128	1,200
Net current assets		**36,029**	37,672
Net assets		**117,399**	119,042
Capital and reserves			
Share capital		**4,160**	4,160
Reserves	*(b)*	**113,239**	114,882
Total equity		**117,399**	119,042

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2012

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(CONTINUED)*

Notes:

(a) *The amounts are unsecured, non-interest bearing and repayable on demand.*

(b) *Reserves*

	Share premium	Other reserve (Note)	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 13 April 2011 (date of incorporation)	—	—	—	—
Issue of new shares	50,960	—	—	50,960
Cost of issue of new shares	(4,333)	—	—	(4,333)
Arising from Reorganisation	—	1,923	—	1,923
Capitalisation issue of shares	(3,020)	—	—	(3,020)
Acquisition of a subsidiary	—	79,347	—	79,347
Loss for the period and total comprehensive expense for the period	—	—	(9,995)	(9,995)
At 31 December 2011	43,607	81,270	(9,995)	114,882
Loss for the year and total comprehensive expense for the year	—	—	(1,643)	(1,643)
At 31 December 2012	43,607	81,270	(11,638)	113,239

Note: The other reserve represents difference between the nominal value of the shares issued for the acquisition of Wide Reach and the consolidated net asset values of Wide Reach and its subsidiaries at the date of acquisition.

(c) *Financial guarantee contracts*

At 31 December 2012 and 2011, the Company had given guarantees to banks of certain subsidiaries in respect of their machinery loan, other loan and banking facilities as set out in Note 25.

No provision for the Company's obligation under the financial guarantee contracts has been made as it was not probable that the repayment of loans would be in default.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2012

37. Subsidiaries of the Company

At the end of the reporting period, particulars of the Company's subsidiaries are as follows:

Name of Company	Place of incorporation or establishment	Issued and fully paid share capital/registered capital	Percentage of equity interest attributable to the Company				Principal activities
			2012		2011		
			Direct	**Indirect**	Direct	Indirect	
Wide Reach	British Virgin Islands ("BVI")	Ordinary shares US$3,000	**100%**	**—**	100%	—	Investment holding
Fornton Knitting 豐臨針織有限公司	Hong Kong	Ordinary shares HK$10,000,000	**—**	**100%**	—	100%	Trading of knitwear
Nice Regent 毅俊實業有限公司	Hong Kong	Ordinary shares HK$10,000	**—**	**100%**	—	100%	Sub-contracting of knitted garments
Fornton Holdings 豐臨控股有限公司	Hong Kong	Ordinary shares HK$10,000	**—**	**100%**	—	100%	Trading of knitwear and investment holding
Fung Ching 東莞豐正針織有限公司 *(Note a)*	The PRC	Registered capital US$8,000,000	**—**	**100%**	—	100%	Manufacturing and trading of knitwear
Fornton Apparel Company Limited	BVI	Ordinary shares US$1,000	**—**	**100%**	—	100%	Trading of knitwear

Notes:

(a) Wholly foreign-owned enterprise established in the PRC.

None of the subsidiaries had any debt securities issued subsisting at the end of both years or any time during both years.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Turnover	**400,035**	326,624	356,122	304,499	316,575
Cost of sales	**(323,989)**	(247,233)	(273,113)	(235,932)	(233,957)
Gross profit	**76,046**	79,391	83,009	68,567	82,618
Other operating income	**5,457**	3,933	6,421	6,260	3,786
Selling and distribution expenses	**(9,567)**	(9,669)	(13,589)	(10,659)	(9,759)
Administrative and other expenses	**(53,361)**	(57,051)	(41,857)	(37,077)	(40,748)
Finance costs	**(641)**	(700)	(407)	(110)	(441)
Profit before taxation	**17,934**	15,904	33,577	26,981	35,456
Income tax expense	**(4,196)**	(4,823)	(5,610)	(4,774)	(8,472)
Profit for the year	**13,738**	11,081	27,967	22,207	26,984
Exchange differences arising on translation of foreign operations and total other comprehensive expense	**565**	2,411	(264)	20	153
Total comprehensive income for the year, net of tax	**14,303**	13,492	27,703	22,227	27,137
Earnings per share (HK cents) Basic and diluted	**3.3**	3.4	9.0	7.1	11.3

Five Year Financial Summary (Continued)

ASSETS AND LIABILITIES

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**206,359**	196,219	152,820	167,096	147,654
TOTAL LIABILITIES	**(67,118)**	(71,281)	(89,041)	(56,320)	(59,105)
NET ASSETS	**139,241**	124,938	63,779	110,776	88,549