

FORNTON

FORNTON GROUP LIMITED

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

Interim Report 2013

Contents

02	Corporate Information
04	Condensed Consolidated Statement of Comprehensive Income
05	Condensed Consolidated Statement of Financial Position
07	Condensed Consolidated Statement of Changes in Equity
08	Condensed Consolidated Statement of Cash Flows
09	Notes to the Condensed Consolidated Interim Financial Statements
23	Management Discussion and Analysis
26	Other Disclosures

Corporate Information

Board of Directors

Executive directors

Mr. Yam Tak Cheung (*Chairman*)
Ms. Wong Kan Kan, Kandy
Mr. Wong Tat Wai, Derek
Mr. Zheng Qiang
Mr. Han Hanting

Non-executive director

Mr. Chan Yee, Herman

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

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

Corporate Information (Continued)

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

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

The board of directors (the "Board") of Fornton Group Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2013 together with the comparative figures as follows:

	Notes	Six months ended 30 June	
		2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover	4	101,295	106,804
Cost of sales		(84,657)	(86,372)
Gross profit		16,638	20,432
Other operating income	4	3,492	4,235
Selling and distribution expenses		(4,341)	(3,557)
Administrative and other expenses		(25,712)	(25,847)
Finance costs	6	(189)	(265)
Loss before taxation		(10,112)	(5,002)
Income tax credit	7	1,276	434
Loss for the period	8	(8,836)	(4,568)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences arising on translation of foreign operations		531	130
Total comprehensive expenses for the period		(8,305)	(4,438)
Loss per share (HK cents)			
Basic and diluted	10	(2.1)	(1.1)

Condensed Consolidated Statement of Financial Position

At 30 June 2013

	Notes	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
Non-current assets			
Plant and equipment	11	36,997	41,633
Deposit paid for acquisition of plant and equipment		1,944	2,276
Deferred tax assets		1,952	—
		40,893	43,909
Current assets			
Inventories		70,113	21,358
Trade and other receivables	12	48,672	50,327
Derivative financial instruments	13	300	550
Pledge bank deposits		3,000	3,000
Bank balances and cash		43,007	87,215
		165,092	162,450
Current liabilities			
Trade and other payables	14	51,107	38,731
Amounts due to directors	15	587	1,047
Bank borrowings	16	21,938	25,831
Obligation under finance leases — due within one year		237	231
Income tax payables		347	271
		74,216	66,111
Net current assets		90,876	96,339
Total assets less current liabilities		131,769	140,248

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2013

	Notes	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
<hr/>			
Non-current liabilities			
Obligations under finance leases — due after one year		833	953
Deferred tax liabilities		—	54
		833	1,007
<hr/>			
		130,936	139,241
<hr/>			
Capital and reserves			
Share capital	17	4,160	4,160
Reserves		126,776	135,081
		130,936	139,241
<hr/>			

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	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 2012 (audited)	4,160	43,607	9,943	2,660	64,568	124,938
Loss for the period	—	—	—	—	(4,568)	(4,568)
Other comprehensive income for the period	—	—	—	130	—	130
Total comprehensive expenses for the period	—	—	—	130	(4,568)	(4,438)
At 30 June 2012 (unaudited)	4,160	43,607	9,943	2,790	60,000	120,500
At 1 January 2013 (audited)	4,160	43,607	9,943	3,225	78,306	139,241
Loss for the period	—	—	—	—	(8,836)	(8,836)
Other comprehensive income for the period	—	—	—	531	—	531
Total comprehensive expenses for the period	—	—	—	531	(8,836)	(8,305)
At 30 June 2013 (unaudited)	4,160	43,607	9,943	3,756	69,470	130,936

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.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Net cash (used in) from operating activities	(38,961)	48,942
Net cash used in investing activities	(622)	(12,117)
Net cash used in financing activities	(4,656)	(46,826)
Net decrease in cash and cash equivalents	(44,239)	(10,001)
Cash and cash equivalents at 1 January	87,215	47,975
Effect on foreign exchange rates changes	31	10
Cash and cash equivalents at 30 June, represented by bank balances and cash	43,007	37,984

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2013

1. General

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

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

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

2. Basis of Preparation

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”).

The condensed consolidated interim financial statements incorporate the financial position 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.

3. Significant Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

3. Significant Accounting Policies (Continued)

In the current interim period, the Group has applied, for the first time, the following new or revised HKFRSs and HKASs issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2013.

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

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

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

Amendments to HKFRS 10, HKFRS 12 and HKFRS 27	Investment Entities ¹
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKAS 36	Recoverable amount disclosure for non-financial assets ¹
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Account ¹
HK (IFRIC)-Int 21	Levies ¹
HKFRS 9	Financial Instruments ²
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 January 2015

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

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

4. Turnover and Other Operating Income

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

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

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Turnover		
Sales of knitted products	101,295	106,804
Other operating income		
Net investment income from derivative financial instruments	1,268	912
Bank interest income	200	30
Gain on disposal of prepaid lease payment	—	2,017
Gain on disposal of plant and equipment	14	—
Sales of scrapped materials	1,700	1,027
Sundry income	310	249
	3,492	4,235

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

5. Segment Information

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

Geographical information

The Group's operations are located in Hong Kong and the People Republic of China (the "PRC"). The Group's customers are mainly located in the United States of America (the "USA"). An analysis of the Group's revenue from external customers based on their geographical location of their headquarters is detailed below:

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
USA	49,591	58,553
Europe	41,693	34,602
Canada	4,757	4,071
Asia	5,254	9,578
	101,295	106,804

Less than 1% of the Group's revenue from external customers is derived from Hong Kong (country of domicile) during the two periods ended 30 June 2013 and 2012.

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

	Non-current assets	
	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
Hong Kong	4,987	5,187
The PRC	35,906	38,722
	40,893	43,909

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

5. Segment Information (Continued)

Information about major customers

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

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Customer A	58,528	67,770
Customer B	11,170	N/A*
Customer C	N/A*	11,588

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

6. Finance Costs

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Interest expenses on:		
— bank borrowings wholly repayable:		
— within five years	141	228
— trust receipt loans	—	22
— obligations under finance leases	48	15
	189	265

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

7. Income Tax (Credit) Expense

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Current tax		
— Hong Kong Profits Tax	76	343
— PRC Enterprise Income Tax ("EIT")	527	166
Deferred taxation	603 (1,879)	509 (943)
	(1,276)	(434)

- (i) Hong Kong Profits Tax was calculated at 16.5% of the Group's estimated profits for the two periods ended 30 June 2013 and 2012.
- (ii) Dongguan Fung Ching Knitting Limited* ("Fung Ching") (東莞豐正針織有限公司), being an indirect wholly-owned subsidiary of the Company, is a wholly-owned foreign investment enterprise and is entitled to tax concessions whereby the profit for the first two financial years beginning on 1 January 2008 is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the PRC government.
- Fung Ching is exempted from EIT from 1 January 2008 to 31 December 2009 and the applicable rate from 1 January 2010 to 31 December 2012 is 12.5%.
- (iii) HK\$1,879,000 of deferred tax assets had been recognised for the six months ended 30 June 2013 in respect of unused tax loss for the period.

* The English name is for identification purpose only.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

8. Loss for the Period

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Loss for the period has been arrived at after charging :		
Amortisation of prepaid lease payment	—	55
Depreciation of plant and equipment	6,361	6,248
Loss on change in fair value of derivative financial instruments	250	200
Net exchange loss	314	390
Operating lease rental paid in respect of rented — office premises	1,784	1,789
Processing fees (Note)	21,149	20,818
Sub-contracting fee (included in cost of sales)	19,211	19,846

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

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Salaries and allowances	8,438	7,429
Factory's lease	892	889
Labour cost — direct and indirect	10,333	10,974
Utilities	1,485	1,526
	12,710	13,389
	21,148	20,818

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

9. Dividends

No dividends were paid, declared or proposed during the interim period. The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

10. Loss Per Share

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

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share	(8,836)	(4,568)
Number of share ('000)		
Weighted average number of ordinary shares for the purpose of basic loss per share	416,000	416,000

The diluted loss per share is equal to the basic loss per share as there were no dilutive potential ordinary shares outstanding during two periods ended 30 June 2013 and 2012.

11. Movements in Plant and Equipment

During the six months ended 30 June 2013, the Group incurred approximately HK\$1,168,000 (six months ended 30 June 2012: HK\$885,000) on the acquisition of plant and equipment.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

12. Trade and Other Receivables

	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
Trade receivables	40,497	44,026
Other receivables	4,446	3,980
Prepayment	2,756	2,321
Value added tax receivables	973	—
	48,672	50,327

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

	30.6.2013 HK\$'000	31.12.2012 HK\$'000
0 to 45 days	40,180	40,717
46 to 90 days	29	2,721
91 to 365 days	—	48
Over 365 days	288	540
	40,497	44,026

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

13. Derivative Financial Instruments

As at 30 June 2013, the Group entered into four non-deliverable structured forward contracts (the "Forward Contracts") (As at 31 December 2012: two) denominated in US\$ and Renminbi with a bank.

The net fair value of the derivative financial instruments as at 30 June 2013 is approximately HK\$300,000 (As at 31 December 2012: HK\$500,000). The loss on the change in fair value of derivative financial instruments of approximately HK\$250,000 (six months ended 30 June 2012: HK\$200,000) was recognised in profit or loss during the six months ended 30 June 2013.

14. Trade and Other Payables

	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
Trade payables	32,907	19,686
Receipt in advance	897	1,414
Other payables	17,303	17,582
Value added tax payables	—	49
	51,107	38,731

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

	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
0 to 90 days	32,616	18,966
91 to 365 days	250	637
Over 365 days	41	83
	32,907	19,686

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

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

15. Amounts Due To Directors

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

16. Bank Borrowings

	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
Unsecured:		
Machinery loan (Note (i))	19,538	22,831
Other bank loan (Note (ii))	2,400	3,000
	21,938	25,831

Notes:

- (i) As at 30 June 2013, machinery loans approximately HK\$19,538,000 (As at 31 December 2012: HK\$22,831,000) 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) As at 30 June 2013, the other bank loan approximately HK\$2,400,000 (As at 31 December 2012: HK\$3,000,000) 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.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

17. Share Capital

The share capital of the Group as at 31 December 2012 and 30 June 2013 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 31 December 2012 and 30 June 2013	10,000,000	100,000
Issued and fully paid		
Ordinary shares of HK\$0.01 each as at 31 December 2012 and 30 June 2013	416,000	4,160

18. Commitment Under Operating Lease

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 six years and rentals are fixed. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

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

	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
Within one year	1,930	2,590
In the second to fifth years, inclusive	—	—
	1,930	2,590

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

19. Capital Commitments

The Group had the following capital commitments at the end of the reporting period:

	30.6.2013 HK\$'000 (Unaudited)	31.12.2012 HK\$'000 (Audited)
Contracted, but not provided for:		
Plant and equipment	1,734	1,734

20. Related Party Transactions

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

(a) Compensation of key management personnel

The remuneration of key management personnel during the two periods ended 30 June 2013 and 2012 are as follows:

	Six months ended 30 June	
	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Unaudited)
Short-term employee benefits	2,987	2,508
Post-employment benefits	44	31
	3,031	2,539

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

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

For the six months ended 30 June 2013

20. Related Party Transactions (Continued)

(b) Other related parties transactions

Name of company	Nature of transaction	Six month ended 30 June	
		2013 HK\$'000	2012 HK\$'000
Long Rise Investment Development Limited ("Long Rise")	Rental charged therefrom	850	850

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

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

21. 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 participants.

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

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

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

Management Discussion and Analysis

Financial Performance and Business Review

During the six months ended 30 June 2013, the Group recorded a turnover of approximately HK\$101,295,000, showing a decrease of 5.2% from approximately HK\$106,804,000 for the corresponding period in last year. Gross profit of the Group decreased by 18.6% from approximately HK\$20,432,000 for the six months ended 30 June 2012 to approximately HK\$16,638,000 for the six months ended 30 June 2013. The Group recorded a loss of approximately HK\$8,836,000 for the six months ended 30 June 2013 as compared with a loss of approximately HK\$4,568,000 for the corresponding period in last year. The loss of the Group for the six months ended 30 June 2013 was primarily attributable to the decreases in turnover and gross profit margin of the Group as a result of the worsening of the market conditions and business environment, the severe competition of the textile industry in Europe and the USA and the ongoing upward adjustment in labour cost and general inflation in the PRC.

The business environment was still challenging during the period under review, economic and consumption sentiment in Europe and USA acted as our key factors of business performance. Although some positive signals on US recovery were reported recently, the consumption sentiment in USA is general weak. The Eurocrisis still dampened the market sentiment in Europe as well. These unfavourable factors affected our customers' sentiment to place order and gave a strong pressure on our product price which in turn resulted in decrease in the Group's turnover by approximately HK\$5,509,000 and the gross profit ratio decrease from approximately 19.13% for the six months ended 30 June 2012 to approximately 16.43% for the six months ended 30 June 2013.

Outlook

The global economic recovery was slow and unpredictable, the prospect of the textile industry will be still in a tough time for a while. To compensate the effect of decrease in turnover and decrease in gross profit rate, the Group will adopt a more cost-conscious and conservative approach on operations. On the other hand, the Group will improve our productivity efficiency and product quality through production facilities enhancement continuously to maintain our competitive position in this difficult market condition.

To diversify a business risk on single segment of manufacturing and trading of high quality fashion apparels, the management of the Group is seeking new revenue stream proactively. Memorandum of undertaking in respect of the cooperation with Valley Longwill Mining Equipment (Tai Yuan) Company Limited for developing of in-seam directional drilling systems leasing business and a Letter of Intent in respect of the cooperation with Shanxi Coking Coal Group International Development (Hong Kong) Co., Ltd for developing iron ore, nonferrous metal ores, coal and other resources products and related equipment and facilities trading business were entered in 9 July 2013 and 12 July 2013 respectively. The management is of the view that the entering into of the Letter of Intent and Memorandum of undertaking are furtherance of the business of the Group which is in the interests of the Group and the Shareholders as a whole.

Management Discussion and Analysis (Continued)

Financial Position and Capital Structure

As at 30 June 2013, the Group recorded total assets of approximately HK\$205,985,000 which were financed by equity of approximately HK\$130,936,000 and liabilities of approximately HK\$75,049,000. The gearing ratio of total borrowing as a percentage of total capital and reserves attributable to Shareholders was 18.0% as at 30 June 2013 and 20.2% as at 31 December 2012. The Group had cash and bank balances of approximately HK\$43,007,000. Deposit amounting to HK\$3,000,000 has been pledged to secure bank overdrafts, short-term bank loans and unused banking facilities. The current ratio (current assets divided by current liabilities) of the Group reduced from 2.46 times as at 31 December 2012 to 2.22 times as at 30 June 2013. The Group's operation was mainly financed by funds generated from its operation and borrowings. As at 30 June 2013, the borrowings were mainly denominated in Hong Kong dollars ("HK\$"), while the cash and cash equivalents held by the Group were mainly denominated in HK\$, Renminbi ("RMB") and United States dollars ("US\$"). Save for the amounts due to Directors and related company, which are non-interest bearing, all of the Group's borrowings are on a floating rate basis.

Contingent Liabilities

As at 30 June 2013, the Group did not have any significant contingent liabilities.

Foreign Exchange Exposure and Interest Rate Risk

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

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

Credit Policy

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

Management Discussion and Analysis (Continued)

Capital Expenditure

During the six months ended 30 June 2013, the Group invested approximately HK\$1,168,000 (six months ended 30 June 2012: approximately HK\$885,000) on acquisition of plant and equipment.

Charges on Assets

As at 30 June 2013, deposit amounting to HK\$3,000,000 has been pledged to secure bank overdrafts, short-term bank loans and unused banking facilities.

Employee and Remuneration Policy

As at 30 June 2013, the Group has workforce of approximately 1,200 persons including 5 executive directors, 1 non-executive director and 3 independent non-executive directors in Hong Kong and the PRC. Remuneration policies of the Group and the current market condition with salaries and wages being reviewed on an annual basis. The Group also provided discretionary bonus, medical insurance, training programs, social security and provident fund to the staff of the Group. Pursuant to the written resolution of the shareholders of the Company on 11 October 2012, the Company has adopted a share option scheme (the "Scheme") for the purpose of motivating eligible participants. For the six months ended 30 June 2013, no share options were granted by the Company since the adoption of the Scheme.

Significant Investment Held

Except for investment in subsidiaries, during the six months ended 30 June 2013 and as at the end of the reporting period, the Group did not hold any significant investment in equity interest in any company.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the six months ended 30 June 2013, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the section headed "Use of Proceeds" in the annual report of the Company issued on 12 April 2013, the Group did not have other plans for material investments and capital assets.

Other Disclosures

Interim Dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2013 (2012: Nil).

Purchase, Sale or Redemption of the Company's Listed Securities

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

Directors' Interests and Short Positions in Shares and Underlying Shares

At 30 June 2013, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), 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. Zheng Qiang	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.

Other Disclosures (Continued)

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. Zheng Qiang is the beneficial owner of 100% of the issued share capital of Billion Mission Limited and is deemed to be interested in the 104,000,000 Shares held by Billion Mission Limited under the SFO.*

Save as disclosed above, as at 30 June 2013, to the best knowledge of the directors, none of the directors 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.

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

As at 30 June 2013, 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
Billion Mission 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. Zheng Qiang is the beneficial owner of 100% of the issued share capital of Billion Mission Limited and is deemed to be interested in the 104,000,000 shares held by Billion Mission Limited under the SFO.*

Save as disclosed above, as at 30 June 2013, no person, other than a Director, whose interests are set out under "Directors' interests and short positions in shares and underlying shares" section 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.

Other Disclosures (Continued)

Compliance with the Code on Corporate Governance Practices

The Company had complied throughout the six months ended 30 June 2013 with the code provisions set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 of the Listing Rules.

The Company has adopted a code of conduct (the "Code of Conduct") regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standard set out in the Code of Conduct during the six months ended 30 June 2013.

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

Audit Committee

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

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

The Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2013 and discussed with the senior management the internal control and financial reporting matters as well as the accounting principles and practices adopted by the Group in relation to the preparation of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2013.

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

Hong Kong, 28 August 2013

