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FORNTON GROUP LIMITED

豐臨集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1152)

- (1) PROPOSED SHARE SUBDIVISION AND CHANGE OF BOARD LOT SIZE;
(2) PROPOSED PLACING OF NEW SHARES AND
CONVERTIBLE BONDS UNDER SPECIFIC MANDATE;
AND
(3) MEMORANDUM OF UNDERSTANDING**

Joint Financial Advisers to the Company



VEDA | CAPITAL
智略資本

Placing Agent



THE SHARE SUBDIVISION AND CHANGE OF BOARD LOT SIZE

The Board proposes to subdivide each (1) existing issued and unissued Share of HK\$0.01 in the capital of the Company into two (2) Subdivided Shares of HK\$0.005 each.

Application will be made to the Listing Committee for the listing of, and permission to deal in, the Subdivided Shares arising from the Share Subdivision. All Subdivided Shares will rank pari passu with each other in all respects with the Shares in issue prior to the Share Subdivision and the rights attached to the Subdivided Shares will not be affected by the Share Subdivision.

The Shares are currently traded in board lot size of 4,000 Shares. Upon the Share Subdivision becoming effective, the board lot size will be changed from 4,000 Shares to 2,000 Subdivided Shares.

THE PLACING AGREEMENT — THE SHARE PLACING AND THE CB PLACING

The Board is pleased to announce that after trading hours on 22 October 2013, the Company and the Placing Agent entered into the Placing Agreement pursuant to which the Placing Agent has conditionally agreed to (i) place up to an aggregate of 300,000,000 Placing Shares at the Share Placing Price of HK\$1.00 per Placing Share, on a best effort basis, to not less than six Share Placees who and whose ultimate beneficial owners are Independent Third Parties; and (ii) place the Convertible Bonds with an aggregate principal amount of up to HK\$900,000,000 at an initial Conversion Price of HK\$1.00 per Conversion Share (subject to adjustments) on a best effort basis, to not less than six CB Placees who and whose ultimate beneficial owners are Independent Third Parties during the Placing Period.

The Placing Shares and the Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Bonds will be issued under specific mandate to be obtained at the SGM.

Completion of the Share Placing and the CB Placing are subject to the satisfaction of the conditions precedent in the Placing Agreement. As the Share Placing and the CB Placing may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares and/or Subdivided Shares.

MEMORANDUM OF UNDERSTANDING

The Board is pleased to announce that after trading hours on 22 October 2013, the Purchaser has entered into a non-legally binding MOU with the Vendor in relation to the Possible Acquisition of 17% of the issued share capital of the Target Company which is indirectly holding 45% equity interest in Shanxi Coal.

The Board would like to emphasize that no legally binding agreement in relation to the Possible Acquisition has been entered into by the Group with any party as at the date of this announcement. As the Possible Acquisition may or may not materialize, Shareholders and potential investors are advised to exercise caution with dealing in the Shares and/or Subdivided Shares.

GENERAL

A SGM will be convened and held to approve the Share Subdivision and the Placing Agreement and the transactions contemplated thereunder in which ordinary resolution(s) to approve the Share Subdivision and the Placing Agreement and the transactions contemplated thereunder will be proposed.

The Company will seek the specific mandate from the Shareholders at the SGM for the allotment and issue of the Placing Shares and the Conversion Shares falling to be issued upon conversion of the Convertible Bonds.

A circular containing, amongst other things, further details of the Share Subdivision including the trading arrangement, Change of Board Lot Size, the Placing Agreement and the notice of SGM will be despatched to the Shareholders as soon as possible.

THE SHARE SUBDIVISION AND CHANGE OF BOARD LOT SIZE

Share Subdivision

As at the date of this announcement, the authorised share capital of the Company is HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each, of which 416,000,000 Shares have been issued and are fully paid or credited as fully paid.

The Board proposes to subdivide each (1) existing issued and unissued Share of HK\$0.01 in the capital of the Company into two (2) Subdivided Shares of HK\$0.005 each. Upon the Share Subdivision becoming effective, the authorised share capital of the Company will be HK\$100,000,000 divided into 20,000,000,000 Subdivided Shares of HK\$0.005 each, of which 832,000,000 Subdivided Shares will be in issue and fully paid or credited as fully paid, assuming that no further Shares are issued or repurchased prior to the Share Subdivision becoming effective.

All Subdivided Shares will rank pari passu with each other in all respects with the Shares in issue prior to the Share Subdivision and the rights attached to the Subdivided Shares will not be affected by the Share Subdivision.

The Share Subdivision is conditional upon:

- (a) the passing by the Shareholders at the SGM of an ordinary resolution approving the Share Subdivision; and
- (b) the Listing Committee granting the listing of, and permission to deal in, the Subdivided Shares.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Subdivided Shares arising from the Share Subdivision.

Change of Board Lot Size

The Shares are currently traded in board lot size of 4,000 Shares. The Board proposes that subject to and upon the Share Subdivision becoming effective, the board lot size will be changed from 4,000 Shares to 2,000 Subdivided Shares. The Change of Board

Lot Size will reduce the market value of each board lot. The Board is of the view that the reduction in board lot size may improve the liquidity of the Shares. The Change of Board Lot Size will not affect any of the relative rights of the Shareholders. The Board considers that the Change of Board Lot Size is in the interests of the Company and the Shareholders as a whole.

Arrangement on odd lot trading

In order to facilitate the trading of odd lots (if any) of the Subdivided Shares, the Company will appoint a securities firm to provide matching services, on a best effort basis, to those Shareholders who wish to top up or sell their holding of odd lots of the Subdivided Shares. Details of the odd lot arrangement will be stated in the circular to be despatched to the Shareholders which shall contain, inter alia, details of the Share Subdivision and the Change of Board Lot Size.

Reasons for the Share Subdivision and the Change of Board Lot Size

The proposed Share Subdivision will decrease the nominal value and increase the total number of Shares in issue. The Share Subdivision will result in downward adjustment to the trading price of the Shares. The Board believes that the Share Subdivision will decrease the trading spread as well as the volatility of the trading price of the Shares and thus result in the improved liquidity in trading of the Company's Subdivided Shares. Therefore, the Board considers that the Share Subdivision will enable the Company to attract more investors and broaden its Shareholder base.

Save for the expenses to be incurred by the Company in relation to the Share Subdivision, the implementation of the Share Subdivision will not, by itself, alter the underlying assets, business operations, management or the financial position of the Company or the proportionate interest of the Shareholders. The Board considers the Share Subdivision is in the interests of the Company and the Shareholders as a whole.

The Board also considers that the Change of Board Lot Size will result in Subdivided Shares being traded in a more reasonable board lot size and value.

Free exchange of share certificates

Upon the Share Subdivision becoming effective and within a free-exchange period, the Shareholders can submit their existing share certificate for the Shares to the Company's branch share registrar in Hong Kong, Union Registrars Limited at 18/F, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong, in exchange for new share certificates for the Subdivided Shares free of charge. After the expiry of such period, existing certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such higher amount as may from time to time

be specified by the Stock Exchange) for each existing share certificate cancelled or new share certificate issued (whichever number of share certificates involved is higher).

Further announcement on the expected timetable of the free exchange of share certificates will be made by the Company.

THE PLACING AGREEMENT

On 22 October 2013 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement pursuant to which the Placing Agent has conditionally agreed to (i) place up to an aggregate of 300,000,000 Placing Shares at the Share Placing Price of HK\$1.00 per Placing Share, on a best effort basis, to not less than six Share Placees who and whose ultimate beneficial owners are Independent Third Parties; and (ii) place the Convertible Bonds with an aggregate principal amount of up to HK\$900,000,000 at an initial Conversion Price of HK\$1.00 per Conversion Share (subject to adjustments) on a best effort basis, to not less than six CB Placees who and whose ultimate beneficial owners are Independent Third Parties during the Placing Period.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Placing Agent and its ultimate beneficial owners are Independent Third Parties.

The Share Placing

Share Placees

The Placing Shares will be placed to not less than six Share Placees who and whose ultimate beneficial owners are Independent Third Parties.

Placing Shares

Assuming the Share Subdivision has become effective, the maximum number of 300,000,000 Placing Shares represent (i) approximately 36.06% of the existing issued share capital of the Company of 832,000,000 Subdivided Shares as at the date of this announcement; (ii) approximately 26.52% of the Company's issued share capital of 1,132,000,000 Subdivided Shares as enlarged by the Share Placing; and (iii) approximately 14.76% of the Company's issued share capital of 2,032,000,000 Subdivided Shares as enlarged by the Share Placing and the maximum number of Conversion Shares falling to be issued upon full exercise of the conversion rights attaching to the Convertible Bonds.

The Placing Shares will be issued under a specific mandate to be obtained at the SGM.

Ranking of Placing Shares

Subject to the Share Subdivision having become effective, the Placing Shares will rank, upon issue, pari passu in all respects with the Subdivided Shares in issue on the date of allotment and issue of the Placing Shares.

Application for listing

Application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in the Placing Shares.

Share Placing Price

The Share Placing Price of HK\$1.00 represents:

- (i) a discount of approximately 24.81% to the adjusted closing price of HK\$1.33 per Subdivided Share, based on the closing price of HK\$2.66 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Subdivision; and
- (ii) a discount of approximately 27.01% to the adjusted average closing price per Subdivided Share of approximately HK\$1.37, based on the average closing price of approximately HK\$2.74 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Subdivision.

The Share Placing Price was determined with reference to the prevailing market price of the Share and was negotiated on an arm's length basis between the Company and the Placing Agent. The Directors (including the independent non-executive Directors) consider that the terms of the Share Placing are on normal commercial terms and are fair and reasonable based on the current market conditions and in the interests of the Company and the Shareholders as a whole.

It is expected that the gross and net proceeds from the Share Placing (after deducting applicable costs and expense, including commission, legal fees and levies) will amount to HK\$300 million and approximately HK\$292.5 million respectively (on the assumption that all the Placing Shares are placed in full). The net placing price of each Placing Share is approximately HK\$0.975.

Commission of the Share Placing

The Placing Agent will receive a placing commission of 2.50% of the amount equal to the Share Placing Price multiplied by the number of Placing Shares that the Placing Agent has successfully placed. Such placing commission was arrived at after arm's length negotiation between the Company and the Placing Agent by reference to the

size, the current market condition and the time allowed for the Placing Agent to procure Share Placees for the Share Placing. The Directors are of the view that the placing commission payable under the Share Placing is fair and reasonable.

Completion of the Share Placing

Completion of the Share Placing will take place on the Closing Date.

The CB Placing

CB Placees

The Convertible Bonds will be placed to not less than six CB Placees who and whose ultimate beneficial owners are Independent Third Parties.

Issue price of the Convertible Bonds

The issue price of the Convertible Bonds shall be at 100% of the principal amount of the Convertible Bonds.

It is expected that the gross and net proceeds from the CB Placing (after deducting applicable costs and expense, including commission, legal fees and levies) will amount to HK\$900 million and approximately HK\$877.5 million respectively (on the assumption that all the Convertible Bonds are placed in full).

Conversion Shares

Assuming the Share Subdivision has become effective and upon full conversion of the Convertible Bonds at the Conversion Price, the maximum number of 900,000,000 Conversion Shares to be issued represent (i) approximately 108.17% of the existing issued share capital of the Company of 832,000,000 Subdivided Shares as at the date of this announcement; and (ii) approximately 44.28% of the Company's issued share capital of 2,032,000,000 Subdivided Shares as enlarged by the Share Placing and the maximum number of Conversion Shares falling to be issued upon full exercise of the conversion rights attaching to the Convertible Bonds.

The Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Bonds will be issued under a specific mandate to be obtained at the SGM.

Application for listing

Application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in the Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Bonds.

Placing commission of CB Placing

The Placing Agent will receive a placing commission of 2.50% of the amount equal to the aggregate principal amount of the Convertible Bonds that the Placing Agent has successfully placed. Such placing commission was arrived at after arm's length negotiation between the Company and the Placing Agent by reference to the size, the current market condition and the time allowed for the Placing Agent to procure CB Places for the CB Placing. The Directors are of the view that the placing commission payable under the CB Placing is fair and reasonable.

Completion of the CB Placing

Completion of the CB Placing will take place on the Closing Date.

Principal terms of the Convertible Bonds

Details of the principal terms of the Convertible Bonds have been set out in below section headed "PRINCIPAL TERMS OF THE CONVERTIBLE BONDS".

Conditions of the Placing Agreement

Completion of the Placing Agreement is conditional upon:

- a. the passing of an ordinary resolution by the Shareholders to approve the Share Subdivision, the Share Placing, the CB Placing and the transactions contemplated thereunder (including the specific mandate for the Placing Shares and the Conversion Shares to be issued upon conversion of the Convertible Bonds) at the SGM;
- b. the Share Subdivision having become effective;
- c. the Listing Committee granting approval for the listing of, and permission to deal in, the Placing Shares and the Conversion Shares on the Stock Exchange and the approval not having been subsequently revoked or cancelled;
- d. if required, the Company having obtained the necessary consent, approval, authorisation, permission, or confirmation from any third party to which the Company or its subsidiaries have entered into any agreement or arrangement; and
- e. the Company's representations and warranties made pursuant to the Placing Agreement being true and accurate and not misleading as of the date of the Placing Agreement and the Closing Date.

The conditions contained in (a), (b) and (c) above cannot be waived by any party. The Company shall use all its reasonable endeavours to procure the satisfaction of the conditions set out above, but if the conditions shall not have been so satisfied within 2

months after the date of the SGM (or such later date as may be agreed by the parties) or any of the force majeure event set out in the Placing Agreement shall have occurred, all obligations of the Placing Agent and of the Company thereunder shall cease and determine and none of the parties shall have any claim against the other in relation thereto save for any antecedent breach of any obligations under the Placing Agreement and without prejudice to the accrued rights and liabilities of the parties.

Termination and force majeure of the Placing Agreement

If at any time between the date of the Placing Agreement and at 5:00 p.m. on the Closing Date, there occurs:

- (a) the introduction of any new law or regulation or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Company; or
- (b) the occurrence of any local, national or international event or change occurring after the date of the Placing Agreement of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which may, in the reasonable opinion of the Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Company or adversely prejudices the success of the Share Placing and CB Placing (such success being the completion of the placing of the Placing Shares and/or the Convertible Bonds to potential investor(s)) or otherwise makes it inexpedient or inadvisable for the Company or the Placing Agent to proceed with the Share Placing and CB Placing; or
- (c) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities) occurs after the date of the Placing Agreement which materially and adversely affects the success of the Share Placing and the CB Placing (such success being the completion of the placing of the Placing Shares to potential investor(s)) or otherwise in the reasonable opinion of the Placing Agent make it inexpedient or inadvisable or inappropriate for the Company or the Placing Agent to proceed with the Share Placing and the CB Placing; or
- (d) the Company commits any material breach of or omits to observe any of its obligations or undertakings under the Placing Agreement; or

- (e) any of the representations or warranties contained in the Placing Agreement was, when given or deemed to be repeated under the Placing Agreement, untrue or inaccurate in any respect or would in any respect be untrue or inaccurate, or if repeated the Placing Agent shall determine in its reasonable opinion that any such untrue representation or warranty represents or is likely to represent a material adverse change in the financial or trading position or prospects of the Company or will otherwise likely to have a material prejudicial effect on the Share Placing and the CB Placing,

then the Placing Agent may upon giving notice to the Company terminate the Placing Agreement with immediate effect. If the Placing Agreement shall be terminated pursuant to the Placing Agreement, the obligations of the Placing Agent shall cease and the Company shall not be liable to pay any commission pursuant to the Placing Agreement, and the Placing Agreement shall forthwith cease and determine and no party shall have any claim against the other party for compensation, costs, damages or otherwise.

Completion of the Share Placing and the CB Placing are subject to the satisfaction of the conditions precedent in the Placing Agreement. As the Share Placing and the CB Placing may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares and/or Subdivided Shares.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

The principal terms of the Convertible Bonds are summarised below:

<i>Aggregate principal amount:</i>	up to HK\$900,000,000
<i>Issue price:</i>	100% of the principal amount of the Convertible Bonds
<i>Maturity date:</i>	the date falling on the third anniversary of the date of issue of the Convertible Bonds (both dates inclusive) (the “Maturity Date”)
<i>Interest:</i>	the Convertible Bonds shall bear no interest
<i>Initial Conversion Price:</i>	HK\$1.00, being the initial conversion price per Conversion Share, subject to adjustments as summarised in the paragraph “Adjustments to the Conversion Price”

The initial Conversion Price is equivalent to the Share Placing Price. The Conversion Price was determined on an arm's length basis between the Company and the Placing Agent with reference to, among other things, the recent performance of the Share price and the Share Placing Price.

The Conversion Price represents:

- (i) a discount of approximately 24.81% to the adjusted closing price of HK\$1.33 per Subdivided Share, based on the closing price of HK\$2.66 per Share as quoted on the Stock Exchange on the Last Trading Day and adjusted for the effect of the Share Subdivision; and
- (ii) a discount of approximately 27.01% to the adjusted average closing price per Subdivided Share of approximately HK\$1.37, based on the average closing price of approximately HK\$2.74 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day and adjusted for the effect of the Share Subdivision.

*Adjustments to the
Conversion Price:*

The initial Conversion Price will from time to time be adjusted in accordance with the relevant provisions under the terms and conditions of the Convertible Bonds upon occurrence of the following events:

- (i) an alteration of nominal amount of the Subdivided Shares by reason of any consolidation or subdivision;
- (ii) an issue (other than in lieu of a cash dividend) any Subdivided Shares credited as fully paid by way of capitalisation of profits or reserves;
- (iii) a capital distribution being made by the Company;

- (iv) an offer or grant being made by the Company to the Shareholders by way of rights or of options or warrants to subscribe for new Subdivided Shares at a price which is less than 90% of the then market price of the Subdivided Share;
- (v) an issue wholly for cash being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Subdivided Shares, if in any case the total consideration per Subdivided Share initially receivable for such securities is less than 90% of the then market price of the Subdivided Shares, or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total consideration per Subdivided Share initially receivable for such securities is less than 90% of the then market price of the Subdivided Shares;
- (vi) an issue being made by the Company wholly for cash of Subdivided Shares at a price per Subdivided Share less than 90% of the then market price of the Subdivided Shares; and
- (vii) an offer or invitation being made by the Company to the Shareholders to tender for sale to the Company any Subdivided Shares or if the Company shall purchase of any Subdivided Shares or securities convertible in Subdivided Shares or any rights to acquire Subdivided Shares.

Conversion rights:

The holders of the Convertible Bonds shall have the right to convert the whole or any part (in integral multiples of HK\$1,000,000 thereof) of the outstanding principal amount of the Convertible Bonds into Subdivided Shares at any time up on or before the Maturity Date provided that no holders of the Convertible Bonds shall exercise any conversion rights in the event that the issuance of the Conversion Shares pursuant to the exercise of any conversion right by the holders of the Convertible Bonds will result in (i) any mandatory offer obligation under Rule 26.1 of the Takeovers Code being triggered by the holders of the Convertible Bonds and/or the parties acting in concert with it (within the meaning of the Takeovers Code); (ii) the Company in breach of any provision of the Listing Rules, including the requirement to maintain any prescribed minimum percentage of the issued share capital of the Company held by the public; and (iii) the Conversion Shares being issued to a connected person or such conversion will otherwise be treated as a connected transaction under the Listing Rules.

Ranking:

The Conversion Shares, when allotted and issued, will rank pari passu in all respects with the other Subdivided Shares then in issue as at the date of issue of such Conversion Shares.

Transferability:

The Convertible Bonds is transferable except that the Convertible Bonds may not be transferred to any connected person of the Company.

Redemption:

Each Convertible Bond may not be redeemed by the Company at any time prior to the Maturity Date.

Voting rights:

The holders of the Convertible Bonds are not entitled to attend or vote at any general meetings of the Shareholders.

Listing:

No application will be made for the listing of and permission to deal in, the Convertible Bonds on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

REASONS FOR THE SHARE PLACING AND THE CB PLACING AND USE OF PROCEEDS

The Company is principally engaged in the manufacturing of an extensive assortment of knitwear products ranging from classically styled wardrobe basics to high quality fashion apparel.

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 understanding in respect of the cooperation with Valley Longwill Mining Equipment (Tai Yuan) Company Limited for developing of in-seam directional drilling systems leasing business (the “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 (the “Trading Business”) were entered on 8 July 2013 and 12 July 2013 respectively.

On the assumption that all the Placing Shares and the Convertible Bonds are placed in full, the aggregate gross proceeds and the net proceeds of the Share Placing and the CB Placing are approximately HK\$1,200 million and HK\$1,170 million respectively. It is expected that the net proceeds will be used (i) as to approximately HK\$200 million on the Possible Acquisition; (ii) as to approximately HK\$570 million on diversification into the Trading Business and the Leasing Business and on general working capital; and (iii) as to approximately HK\$400 million for future potential acquisitions which is yet to be identified by the Company.

The Directors have considered various ways of raising funds and believe that the Share Placing and the CB Placing represent an opportunity to raise capital for the Company while broadening and enhancing the Shareholders and capital base of the Company. The Directors consider that the terms of the Placing Agreement are fair and reasonable based on current market conditions and in the interests of the Company and the Shareholders as a whole.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS OF THE COMPANY

The Company has not conducted any fund raising activities in the past twelve months before the date of this announcement.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The existing and enlarged shareholding structure of the Company (i) as at the date of this announcement; (ii) upon the Share Subdivision has become effective; (iii) immediately after the issue of the Placing Shares (assuming the Placing Shares have been placed in full) but before full conversion of the Convertible Bonds; and (iv) immediately after the issue of the Placing Shares (assuming the Placing Shares have been placed in full) and the Conversion Shares upon full conversion of the Convertible Bonds (assuming the Convertible Bonds have been placed in full) are set out below:

Name of Shareholder	As at the date of this announcement		Upon Share Subdivision has become effective		Immediately after the issue of the Placing Shares (assuming the Placing Shares have been placed in full) but before full conversion of the Convertible Bonds		Immediately after the issue of the Placing Shares (assuming the Placing Shares have been placed in full) and the Conversion Shares upon full conversion of the Convertible Bonds (assuming the Convertible Bonds have been placed in full)	
	No. of Shares	Approximate %	No. of Subdivided Shares	Approximate %	No. of Subdivided Shares	Approximate %	No. of Subdivided Shares	Approximate %
Integrated Asset Management (Asia) Limited (Note 1)	104,000,000	25.00	208,000,000	25.00	208,000,000	18.37	208,000,000	10.24
Ever Rosy Limited (Note 2)	104,000,000	25.00	208,000,000	25.00	208,000,000	18.37	208,000,000	10.24
Billion Mission Limited (Note 3)	104,000,000	25.00	208,000,000	25.00	208,000,000	18.37	208,000,000	10.24
Public:								
Share Placees	0	0.00	0	0.00	300,000,000	26.52	300,000,000	14.76
CB Placees	0	0.00	0	0.00	0	0.00	900,000,000	44.28
Other Shareholders	104,000,000	25.00	208,000,000	25.00	208,000,000	18.37	208,000,000	10.24
<i>Sub-total</i>	<u>104,000,000</u>	<u>25.00</u>	<u>208,000,000</u>	<u>25.00</u>	<u>508,000,000</u>	<u>44.89</u>	<u>1,408,000,000</u>	<u>69.28</u>
Total	<u>416,000,000</u>	<u>100.00</u>	<u>832,000,000</u>	<u>100.00</u>	<u>1,132,000,000</u>	<u>100.00</u>	<u>2,032,000,000</u>	<u>100.00</u>

Notes:

- Mr. Yam Tak Cheung, being the chairman and the executive director of the Company, is the beneficial owner of 100% of the issued share capital of Integrated Asset Management (Asia) Limited.

2. Ms. Wong Kan Kan, Kandy is the beneficial owner of 100% of the issued share capital of Ever Rosy Limited and is the spouse of Mr. Yam Tak Cheung.
3. Billion Mission Limited is wholly owned by Mr. Zheng Qiang.

EXPECTED TIMETABLE

The Company will make further announcement on the expected timetable for the implementation of the Share Subdivision and Change of Board Lot Size.

MEMORANDUM OF UNDERSTANDING

The MOU

Date: 22 October 2013 (after trading hours)

Parties: (1) the Vendor
(2) the Purchaser

To the best of the knowledge, information and belief of the Board and having made all reasonable enquires, the Vendor and its ultimate beneficial owners are Independent Third Parties.

Pursuant to the MOU, the Purchaser has expressed its intention to purchase 17% of the issued share capital of the Target Company from the Vendor and carry out further negotiations on the terms of the Formal Agreement for the Possible Acquisition subject to the due diligence results on the Target Company.

The Target Company is wholly owned by the Vendor as at the date of this announcement. The Target Company is indirectly holding 45% equity interests in Shanxi Coal, a joint venture company established in the PRC on 30 July 2013. Shanxi Coal is principally engaged in (i) design, manufacture, sales and maintenance of coal mining machinery and equipment and related electrical equipment; (ii) leasing of the coal mining machinery and equipment and related electrical equipment and maintenance; and (iii) provide engineering and technology consulting services.

As at the date of this announcement, the remaining 55% equity interest in Shanxi Coal is held by 山西焦煤集團有限責任公司 (transliterated as “Shanxi Coking Coal Group Co., Ltd.”)

Due Diligence

Pursuant to the MOU, the Purchaser has the right to assign representatives, consultants and/or financial adviser to assess and carry out due diligence investigations on the Target Company (including its subsidiaries and Shanxi Coal) in regards of its legal,

financial and other aspects. The Target Company shall be obliged to provide assistance for the due diligence, including but not limited to, provide the required information, documents and responses to queries as required by the Purchaser and its delegated representatives, consultants and financial advisers.

The due diligence should be completed within three months from the date of the MOU (the “Due Diligence Period”). The Purchaser shall provide in a written reply within seven days of the Due Diligence Period to indicate whether or not the Purchaser intends to enter into the Formal Agreement with the Vendor.

Conditions Precedent

The Possible Acquisition is conditional upon fulfillment of the following conditions:

- (i) the Purchaser and the Company having been obtained all necessary approvals for the Possible Acquisition, including the approvals from the Stock Exchange and the approval from the directors and shareholders of each of the Purchaser and the Company (if necessary); the Purchaser and the Company having complied with all applicable laws and regulations;
- (ii) the Purchaser having completed the due diligence investigations on the Target Company (including its subsidiaries and Shanxi Coal) and having been satisfied with the due diligence results regarding all applicable approvals and certificates, operation and management of the Target Company (including its subsidiaries and Shanxi Coal);
- (iii) the Company having completed the fund raising exercise for the purpose of raising funds for settlement of the consideration of the Possible Acquisition;
- (iv) all the relevant legal documents, including but not limited to the Formal Agreement, in relation to the Possible Acquisition having been duly executed; and
- (v) the conditions set out in the Formal Agreement having been fulfilled.

Exclusivity

During the Due Diligence Period, unless having received the written notice of termination of negotiation from the Purchaser, the Vendor shall not enter into discussion or negotiation with any third parties other than the Company in relation to the Possible Acquisition.

Reasons for the entering into of the MOU

The Directors consider that the entering into of the MOU, if materializes, represents a good opportunity for the Group to diversify its business and develop a new revenue stream. The Directors are of the view that the terms of the MOU are fair and reasonable and entering into of the MOU is in the interests of the Group and the Shareholders as a whole.

The Possible Acquisition, which if materializes, may constitute a notifiable transaction on the part of the Company under the Listing Rules. Further announcement(s) will be made by the Company regarding the Possible Acquisition as and when appropriate in compliance with the Listing Rules.

The Board would like to emphasize that no legally binding agreement in relation to the Possible Acquisition has been entered into by the Group with any party as at the date of this announcement. As the Possible Acquisition may or may not materialize, Shareholders and potential investors are advised to exercise caution with dealing in the Shares and/or the Subdivided Shares.

GENERAL

A SGM will be convened and held to approve the Share Subdivision and the Placing Agreement and the transactions contemplated thereunder in which ordinary resolution(s) to approve the Share Subdivision and the Placing Agreement and the transactions contemplated thereunder will be proposed.

The Company will seek the specific mandate from the Shareholders at the SGM for the allotment and issue of the Placing Shares and the Conversion Shares falling to be issued upon conversion of the Convertible Bonds.

A circular containing, amongst other things, further details of the Share Subdivision including the trading arrangement, Change of Board Lot Size, the Share Placing, the CB Placing and the notice of SGM will be despatched to the Shareholders as soon as possible.

DEFINITIONS

“acting in concert”	has meaning ascribed thereto in the Takeovers Code
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“business day”	any day (excluding Saturdays, Sundays, public holidays and days on which a tropical cyclone warning No. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks generally are open for general banking business in Hong Kong
“CB Placing”	placing of the Convertible Bonds pursuant to the terms of the Placing Agreement
“CB Placee(s)”	any investor who is either a professional or institutional investor and other investors whom the Placing Agent has selected or procured to subscribe for any of the Convertible Bonds
“Change of Board Lot Size”	the change of the board lot size from 4,000 Shares to 2,000 Subdivided Shares upon the Share Subdivision becoming effective
“Closing Date”	the 5th business day after fulfilment of the conditions precedent referred to in the Placing Agreement or such other date as the Company and the Placing Agent may agree in writing
“Company”	Fornton Group Limited (stock code: 1152), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed thereto in the Listing Rules;
“Conversion Price”	HK\$1.00 per Conversion Share (subject to adjustments)
“Conversion Share(s)”	new Subdivided Share(s) falling to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Bonds

“Convertible Bonds”	the 3-year zero coupon rate unsecured non-redeemable convertible bonds in the aggregate principal amount of up to HK\$900,000,000 to be issued by the Company
“Director(s)”	director(s) of the Company
“Formal Agreement”	the formal sale and purchase agreement for the Possible Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Parties”	third parties and their ultimate beneficial owner(s) which are independent of the Company, the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Last Trading Day”	22 October 2013, being the last trading day for the Shares before publication of this announcement
“Listing Committee”	the listing committee appointed by the Stock Exchange for considering applications for listing and the granting of listing of securities on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the non-legally binding memorandum of understanding dated 22 October 2013 entered into between the Company and the Vendor, in relation to the Possible Acquisition
“Placing Agent”	VC Brokerage Limited, a licensed corporation to carry out types 1 and 4 regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Agreement”	the conditional placing agreement entered into between the Company and the Placing Agent dated 22 October 2013 in relation to the Share Placing and the CB Placing

“Placing Period”	the period commencing immediately after the Placing Agreement is entered into by the parties and expiring at 5:00 p.m. on the 7th business day after the date of the SGM
“Placing Share(s)”	up to an aggregate of 300,000,000 new Subdivided Shares to be placed under the Share Placing pursuant to the Placing Agreement
“Possible Acquisition”	the possible acquisition of 17% of the issued share capital of the Target Company by the Purchaser as contemplated under the MOU
“Purchaser”	Peak Matrix Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China
“Shanxi Coal”	山西焦煤機械電氣有限公司 (transliterated as Shanxi Coking Coal Machinery Electric Co., Ltd.) a joint venture company established in the PRC, which is owned as to 45% by a wholly-owned subsidiary of the Target Company, and as to 55% by 山西焦煤集團有限責任公司 (transliterated as Shanxi Coking Coal Group Co., Ltd.)
“Share(s)”	ordinary share(s) of HK\$0.01 in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s) or subject to the Share Subdivision becoming effective, the holders of the Subdivided Share(s)
“Share Placee(s)”	any investor who is either a professional or institutional investor and other investors whom the Placing Agent has selected or procured to subscribe for any of the Placing Shares
“Share Placing”	placing of up to an aggregate of 300,000,000 new Subdivided Shares pursuant to the terms of the Placing Agreement
“Share Placing Price”	HK\$1.00 per Placing Share

“Share Subdivision”	the proposed subdivision of each (1) issued and unissued Share into two (2) Subdivided Shares
“Subdivided Share(s)”	ordinary share(s) of HK\$0.005 each in the share capital of the Company upon the Share Subdivision becoming effective
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Share Subdivision and the Placing Agreement and the transactions contemplated thereunder (including the specific mandate for the Placing Shares and the Conversion Shares to be issued upon conversion of the Convertible Bonds)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target Company”	Top Star Group Holdings Ltd., a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Vendor as at the date of this announcement
“Vendor”	Top One International Holdings Limited, a company incorporated in Hong Kong with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 22 October 2013

As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Yam Tak Cheung (Chairman), Ms. Wong Kan Kan Kandy, Mr. Wong Tat Wai Derek, Mr. Zheng Qiang and Mr. Han Hanting, one non-executive Director, namely, Mr. Chan Yee, Herman and three independent non-executive Directors, namely, Mr. Wang Wei Hung Andrew, Mr. Cheng Dickson and Mr. Sin Ka Man.