FORNTON GROUP LIMITED
豐臨集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1152)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

The board (the "Board") of directors (the "Directors") of Fornton Group Limited (the "Company") would like to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 (the "Annual Results"), together with the comparative figures for the previous year, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	**2012** *HK$'000*	2011 *HK$'000*
Turnover	*4*	**400,035**	326,624
Cost of sales		**(323,989)**	(247,233)
Gross profit		**76,046**	79,391
Other operating income	*4*	**5,457**	3,933
Selling and distribution expenses		**(9,567)**	(9,669)
Administrative and other expenses		**(53,361)**	(57,051)
Finance costs		**(641)**	(700)
Profit before taxation		**17,934**	15,904
Income tax expense	*6*	**(4,196)**	(4,823)
Profit for the year	*7*	**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	*9*	**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		**41,633**	49,542
Deposit paid for acquisition of plant and equipment		**2,276**	872
Prepaid lease payment		**—**	13,880
		43,909	64,294
Current assets			
Inventories		**21,358**	26,987
Prepaid lease payment		**—**	327
Trade and other receivables	*10*	**50,327**	52,682
Derivative financial instruments		**550**	700
Tax recoverable		**—**	254
Pledged bank deposits		**3,000**	3,000
Bank balances and cash		**87,215**	47,975
		162,450	131,925
Current liabilities			
Trade and other payables	*11*	**38,731**	32,037
Amount due to a director		**1,047**	3,640
Amount due to a related company		**—**	711
Bank borrowings		**25,831**	33,616
Obligations under finance leases — due within one year		**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
Non-current liabilities			
Obligations under finance leases — due after one year		**953**	158
Deferred taxation		**54**	94
		1,007	252
		139,241	124,938
Capital and reserves			
Share capital		**4,160**	4,160
Reserves		**135,081**	120,778
		139,241	124,938

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

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

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

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

For the purpose of preparing and presenting the consolidated financial statements for the year ended 31 December 2012, the Group has adopted all the amendments issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning on 1 January 2012, same as the beginning of the earliest year presented.

The Group has not early adopted any new and revised HKFRSs, amendments and new interpretations that have been issued by the HKICPA but are not yet effective for the financial year beginning on 1 January 2012.

3. BASIS OF PREPARATION

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

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 HKICPA. Accordingly, the consolidated results of the Group for the years 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.

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.

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

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

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

4. TURNOVER AND OTHER OPERATING INCOME

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

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

	2012	2011
	HK$'000	*HK$'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	**1,920**	—
Government grant *(Note a)*	**107**	—
Net investment income from derivative financial instruments	**1,603**	360
Waiver of trade payables *(Note b)*	**—**	851
Sales of scrapped materials	**1,163**	902
Sundry income	**185**	455
	5,457	3,933

Note:

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.

5. SEGMENT INFORMATION

The Group is engaged in a single business segment, which is sales of knitted products. 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.

Geographical information

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

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

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

	2012	2011
	HK$'000	*HK$'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 was derived from customers based in 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	2011
	HK$'000	*HK$'000*
Hong Kong	**5,187**	2,834
The PRC	**38,722**	61,460
	43,909	64,294

Information on major customers

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

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

6. INCOME TAX EXPENSE

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

Hong Kong Profits Tax was calculated at 16.5% of the Group's estimated assessable profits arising in or derived from Hong Kong for the year ended 31 December 2012 (2011: 16.5%).

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

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

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

7. PROFIT FOR THE YEAR

	2012	2011
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Directors' emoluments	**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 charge 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	2011
	HK$'000	*HK$'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

8. DIVIDENDS

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

9. EARNINGS PER SHARE

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

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

	2012	2011
	'000	*'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 share in issue during the year ended 31 December 2011 represented 312,000,000 shares in issue before the Listing as if such Shares were issued on 1 January 2011, and the weighted average of 104,000,000 shares issued upon the Listing.

10. TRADE AND OTHER RECEIVABLES

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

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

An 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

11. 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

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 30 days to 90 days. The Group has financial risk management policies or plans for its payables with respect to the credit timeframe.

FINANCIAL REVIEW AND ANALYSIS

For the year ended 31 December 2012

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 Listing in the previous year. The effect was partially offset by the decrease in gross profit margin as mentioned above.

FINANCIAL POSITION AND LIQUIDITY

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 Group had total cash and bank balances of approximately HK$90,215,000. 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 of the claims are not material and therefore no provision for this claim has been made in the consolidated financial statements for the year ended 31 December 2012. It is expected that there will not be material impact on the Group from such claims.

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. 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, and the utilised and unutilised amount of the net proceeds as at 31 December 2012:

				As at 31 December 2012	
	Original intended use of proceeds	**Revised intended use of proceeds**	**Net proceeds**	**Utilised amount**	**Unutilised amount**
			(HK$ million)	*(HK$ million)*	*(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$. With production plants and office located in the PRC and Hong Kong, operating expenses of the Group are primarily denominated in HK$, Renminbi or US$. As the HK$ is pegged to the US$, the Group does not expect to be exposed to any currency risks in the near term. Moreover, the Group has a foreign currency hedging policy to monitor the foreign exchange exposure and has entered into several structured forward contracts during the year 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 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.

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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group has adopted the practices which complied with all the code provisions as set out in Appendix 14 — Corporate Governance Code and Corporate Governance Report of the Listing Rules throughout the year ended 31 December 2012.

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

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

AUDIT COMMITTEE

The Annual Results have been reviewed by the audit committee of the Company (the "Audit Committee") which comprises three independent non-executive Directors, namely, Mr. Sin Ka Man (chairman of the Audit Committee), Mr. Wang Wei Hung, Andrew and Mr. Cheng Dickson.

ANNUAL REPORT AND FURTHER INFORMATION

This result announcement is published on the website of the Company *(www.fornton.com)* and the website of the Stock Exchange *(www.hkex.com.hk)*. The annual report of the Group for the year ended 31 December 2012 containing all information required by Appendix 16 of the Listing Rules will be despatched to the Shareholders as well as available on the same websites in due course.

By Order of the Board
Yam Tak Cheung
Chairman

Hong Kong, 25 March 2013

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