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FORNTON GROUP LIMITED

豐 臨 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1152)

DISCLOSEABLE TRANSACTION

AND

CHANGE IN USE OF PROCEEDS

THE DISPOSAL

After the trading hours of the Stock Exchange on 2 March 2012, Fung Ching, an indirect wholly-owned subsidiary of the Company, entered into the Land Acquisition Agreement whereby Fung Ching agreed to dispose of and the Dalang Land Office agreed to acquire the Land for a consideration of RMB15,500,000 (equivalent to approximately HK\$19.1 million) pursuant to a requisition by the local authorities.

Based on the unaudited consolidated management accounts of the Group as at 31 December 2011, a gain of approximately HK\$2.0 million is expected to arise from the Disposal. The Board estimates that the net proceeds from the Disposal (after deducting expenses) will amount to approximately HK\$16.2 million. It is intended that the net proceeds from the Disposal will be retained as cash reserves and general working capital of the Group until suitable opportunities arise to expand the business operation of the Group.

The Disposal constitutes a discloseable transaction for the Company under the Listing Rules.

CHANGE IN USE OF PROCEEDS

With the Disposal, the Group has reallocated HK\$17.3 million of the net proceeds from the Share Offer, which has previously been allocated for the construction of new production factory on the Land, to the intended use as general working capital of the Group.

IMPACT OF THE DISPOSAL AND CHANGE IN USE OF PROCEEDS

The Board considers that there would not be any material adverse impact on the business operation of the Group as a result of the Disposal or the change in use of proceeds.

THE DISPOSAL

The Board wishes to announce that after the trading hours of the Stock Exchange on 2 March 2012, Fung Ching, an indirect wholly-owned subsidiary of the Company, entered into the Land Acquisition Agreement whereby Fung Ching agreed to dispose of and the Dalang Land Office agreed to acquire the Land for a consideration of RMB15,500,000 (equivalent to approximately HK\$19.1 million) pursuant to a requisition by the local authorities. Details of the Land Acquisition Agreement are set out below.

The Land Acquisition Agreement

Date of execution

On 29 February 2012 by the Dalang Land Office and on 2 March 2012 by Fung Ching

Parties

- (i) Dalang Land Office as purchaser; and
- (ii) Fung Ching as vendor

To the best of the Directors' knowledge, information and belief having made reasonable enquiries, the Dalang Land Office is a local government authority in Dongguan City, Guangdong Province, the PRC and an Independent Third Party.

Assets to be disposed

The Land is located in Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC with a total site area of 30,400.50 square metres with the land use of industrial land.

Consideration

The Consideration of RMB15,500,000 (equivalent to approximately HK\$19.1 million) shall be paid by the Dalang Land Office to Fung Ching in the following manner:

- (i) as to RMB7,750,000 (equivalent to approximately HK\$9.5 million) payable within 10 days after the signing of the Land Acquisition Agreement; and
- (ii) the remaining balance of RMB7,750,000 (equivalent to approximately HK\$9.5 million) payable within 60 days after the signing of the Land Acquisition Agreement.

The Consideration was negotiated on an arm's length basis between the parties concerned with reference to the valuation of the Land of HK\$14,700,000 in existing state as at 28 February 2012 prepared by an independent professional valuer.

Completion

Completion has taken place upon signing of the Land Acquisition Agreement whereby the Land has been delivered to the Dalang Land Office for the latter to commence the necessary procedures for the transfer of the title of the Land.

INFORMATION OF THE GROUP

The Company is principally engaged in investment holding, with its principal operating subsidiaries engaged in the manufacturing and sale of knitwear. Its products includes an extensive assortment of knitwear products ranging from classically styled wardrobe basics to high quality fashion apparel.

FINANCIAL EFFECTS OF THE DISPOSAL

The Board estimates that the net proceeds from the Disposal (after deducting expenses) will amount to approximately HK\$16.2 million. It is intended that the net proceeds from the Disposal will be retained as cash reserves and general working capital of the Group until suitable opportunities arise to expand the business operation of the Group.

Based on the unaudited consolidated management accounts of the Group as at 31 December 2011, a gain of approximately HK\$2.0 million is expected to arise from the Disposal, calculated with reference to the net proceeds from the Consideration of approximately HK\$16.2 million less the carrying value of the Land as at 31 December 2011 of approximately HK\$14.2 million.

REASONS FOR THE DISPOSAL

The original intention to develop the Land was stated in the Prospectus. Prior to the entering into of the Land Acquisition Agreement, Fung Ching was informed by the relevant authorities in Dalang Town on the requisition of the Land for the purpose of town development plan.

Having considered (i) the Land is sold pursuant to the requisition by the relevant authorities; (ii) it is not expected that there would be any material adverse impact on the business operation of the Group, as more particularly discussed in the paragraph headed “Impact of the Disposal and change in use of proceeds” below; and (iii) a gain is expected to arise from the Disposal, the Board considers that the entering into of the Land Acquisition Agreement is in the interests of the Company and the Shareholders as a whole and that the terms of the Land Acquisition Agreement are fair and reasonable.

The Disposal constitutes a discloseable transaction for the Company under the Listing Rules.

CHANGES IN USE OF PROCEEDS

The Company has set out the intended use of the net proceeds from the Share Offer of approximately HK\$39.7 million in the section headed “Future plans and use of proceeds” in the Prospectus. Approximately HK\$17.3 million was at the time of the Share Offer allocated to the proposed construction of the new production factory on the Land. As a result of the Disposal, the Company has to re-allocate the said HK\$17.3 million to general working capital purpose. The original intended use of proceeds as set out in the Prospectus is recapped below, with an update on the intended use, where relevant, as a result of the Disposal:

Original intended use of proceeds	Revised intended use of proceeds
1 approximately 43.6% or HK\$17.3 million was intended to be used for construction of new production factory on the Land, details of which are set out in the paragraph headed “New production plant” in the section headed “Business” of the Prospectus;	re-allocated as general working capital
2 approximately 45.5% or HK\$18.1 million was intended to be used for acquiring an additional 220 sets of computerised knitting machines;	remaining unchanged
3 approximately 3.8% or HK\$1.5 million was intended to be used for enhancing the Group’s product design and development capabilities and sales and merchandising capabilities by procuring more advanced technology in yarn development and product design, participating in exhibition twice a year, designing company brochure, acquiring computer software for design and development and hiring additional experienced staff;	remaining unchanged
4 approximately 2.1% or HK\$0.8 million was intended to be used for developing the ERP System of the Group covering various functions including but not limited to sales and merchandising, purchasing, production, warehouse and accounting; and	remaining unchanged
5 the remaining of approximately 5.0% or HK\$2.0 million as the Group’s working capital	remaining unchanged

As shown above, as a result of the Disposal, an additional HK\$17.3 million of the net proceeds from the Share Offer will be re-allocated to the use as general working capital. Accordingly, a total of HK\$19.3 million (representing approximately 48.6%) out of the net proceeds of the Share Offer is intended for use as general working capital.

REASONS FOR THE CHANGES IN USE OF PROCEEDS

The Land is a bare land held by the Group for development of new manufacturing facilities. Reference is made to the section headed “Future plans and use of proceeds” in the Prospectus in which it was stated that the Group intended to use approximately HK\$17.3 million (representing approximately 43.6% of the aggregate net proceeds from the Share Offer) for construction of a new production factory on the Land. With the Disposal, the Group has re-allocated the said HK\$17.3 million of the net proceeds from the Share Offer to the intended use as general working capital of the Group.

As mentioned above, with the re-allocation of the use of proceeds from the Share Offer and the contribution of the proceeds from the Disposal, a total of HK\$33.5 million will be retained as the cash reserves of the Group and available for use as additional general working capital. The Company will continue to look for opportunities to strengthen its production capabilities and capacities with a view to improving the overall profitability of the Group. However, In view of the volatility in the global financial markets as caused by the debt issues in countries of the European Union, the Board believes that the market conditions and business environment in the USA, Europe and the PRC could be relatively volatile for the current year, and the unstable global financial market may also have some impact on the prospects of clothing and apparel industry. In view of this, the Group will take a more prudent approach to scrutinize available acquisition opportunities for the growth and expansion of the Group’s business including but not limited to its production capacities. With the increased cash reserves maintained by the Company after the Disposal, the Board believes that the Group will be in a better position to take advantage of the weakening market and negotiate better terms for any future acquisition when suitable opportunities arise.

The Board considers that the change in use of proceeds from the Share Offer will enhance the Group’s financial strength to resist any possible market downturn and to pursue any suitable investment opportunities.

IMPACT OF THE DISPOSAL AND CHANGES IN USE OF PROCEEDS

The Group currently carried out its production at the production premises of the Processing Factory and the FC Factory and has enough capacities to satisfy the expected demand from its customers. Prior to the Disposal, the Group intended to establish a new production factory on the Land to substitute the FC Factory and expand the production scale. However, as a result of the Disposal, the Group will remain its production at the production premises of the FC Factory and the Processing Factory. In the event that the production capacities of the Group cannot satisfy the customers’ demand, the Group will outsource the production to other outsourcing suppliers in the PRC. On this basis, the Board considers that neither the Disposal nor changes in use of proceeds would impose any material adverse impact on the business operation of the Group.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of Directors
“Company”	Fornton Group Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 1152)
“Consideration”	the consideration for the Land payable by the Dalang Land Office to Fung Ching pursuant to the Land Acquisition Agreement
“Dalang Land Office”	東莞市大朗鎮土地收購儲備辦公室 (Dongguan City Dalang Town Land Reserve Acquisition Office*), an Independent Third Party
“Director(s)”	director(s) of the Company
“Disposal”	the disposal by Fung Ching of the Land pursuant to the Land Acquisition Agreement
“FC Factory”	the production factory located at Changping Town, Dougguan City, Guangdong Province, the PRC leased by Fung Ching
“Fung Ching”	東莞豐正針織有限公司 (Dongguan Fung Ching Knitting Company Limited*), a wholly foreign owned enterprise established in the PRC and an indirect wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party”	third party independent of and not connected with the Company and its connected persons (as defined under the Listing Rules)
“Land”	a piece of land located in Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC with a total land area of 30,400.50 square metres
“Land Acquisition Agreement”	the land acquisition agreement signed by the Dalang Land Office on 29 February 2012 and Fung Ching on 2 March 2012 in relation to the Disposal
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement
“Processing Factory”	東莞大朗巷尾豐臨針織廠 (Dongguan Dalang Xiangwei Fornton Knitting Factory*), the processing factory undertaking the manufacturing process of the knitwear products of the Group
“Prospectus”	the prospectus of the Company dated 18 October 2011 in relation to the Share Offer
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary shares of HK\$0.01 each of the Company
“Share Offer”	the initial public offer of the public offer shares and placing of placing shares of the Company as set out in the Prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

* *The English translation of a Chinese name in this announcement is for identification purposes only and the Chinese names shall prevail if there is any inconsistency between the Chinese name and the English translations.*

For illustration purposes only, figures in RMB in this announcement have been translated into HK\$ at the exchange rate of RMB1: HK\$1.23.

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

Hong Kong, 2 March 2012

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