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 2013

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 2013 (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 2013

	Notes	**2013** **HK$'000**	2012 HK$'000
Turnover	*4*	**310,867**	400,035
Cost of sales		**(256,573)**	(323,989)
Gross profit		**54,294**	76,046
Other operating income	*4*	**4,240**	5,457
Selling and distribution expenses		**(9,441)**	(9,567)
Administrative and other expenses		**(56,118)**	(53,361)
Finance costs		**(350)**	(641)
(Loss)/profit before taxation		**(7,375)**	17,934
Income tax credit/(expense)	*6*	**186**	(4,196)
(Loss)/profit for the year	*7*	**(7,189)**	13,738
Exchange differences arising on translation of foreign operations and total other comprehensive income		**561**	565
Total comprehensive (expense)/income for the year		**(6,628)**	14,303
(Loss)/earnings per share (HK cents)			
Basic and diluted	*9*	**(0.86)**	1.65

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Plant and equipment		**31,633**	41,633
Deposit paid for acquisition of plant and equipment		**2,036**	2,276
		33,669	43,909
Current assets			
Inventories		**22,960**	21,358
Trade and other receivables	*10*	**44,857**	50,327
Derivative financial instruments		**—**	550
Tax recoverable		**2,912**	—
Pledged bank deposits		**—**	3,000
Bank balances and cash		**84,584**	87,215
		155,313	162,450
Current liabilities			
Trade and other payables	*11*	**36,396**	38,731
Amount due to a director		**565**	1,047
Bank borrowings		**18,045**	25,831
Obligations under finance leases — due within one year		**244**	231
Income tax payables		**234**	271
		55,484	66,111
Net current assets		**99,829**	96,339
Total assets less current liabilities		**133,498**	140,248
Non-current liabilities			
Obligations under finance leases — due after one year		**709**	953
Deferred taxation		**176**	54
		885	1,007
		132,613	139,241
Capital and reserves			
Share capital		**4,160**	4,160
Reserves		**128,453**	135,081
		132,613	139,241

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. GENERAL INFORMATION

The Company was incorporated in Bermuda 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") are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 2013, 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 2013, 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 2013.

3. 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 when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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:

	2013	2012
	HK$'000	*HK$'000*
Turnover		
Sales of knitted products	**310,867**	400,035
Other operating income		
Bank interest income	**478**	190
Gain on disposal of plant and equipment	**14**	289
Gain on disposal of prepaid lease payment	**—**	1,920
Government grant *(Note a)*	**—**	107
Net investment income from derivative financial instruments	**1,602**	1,603
Sales of scrapped materials	**1,800**	1,163
Sundry income	**346**	185
	4,240	5,457

Note:

a. During the year ended 31 December 2012, a one-off government grant of approximately HK$107,000 has been recognised 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 ended 31 December 2012.

5. SEGMENT INFORMATION

The Group is engaged in a single business segment, the production and trading of knitwear. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors as they collectively make strategic decision in allocating the Group's resources and assessing performance.

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"), Europe and Canada.

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

	2013	2012
	HK$'000	*HK$'000*
USA	**187,765**	262,715
Europe	**83,975**	87,381
Canada	**20,540**	23,002
Others	**18,587**	26,937
	310,867	400,035

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 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	
	2013	2012
	HK$'000	*HK$'000*
Hong Kong	**5,406**	5,187
The PRC	**28,263**	38,722
	33,669	43,909

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:

	2013	2012
	HK$'000	*HK$'000*
Customer A	**181,832**	255,262

6. INCOME TAX (CREDIT)/EXPENSE

	2013	2012
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax	**111**	3,858
PRC Enterprise Income Tax	**—**	378
	111	4,236
Overprovision in prior years:		
Hong Kong Profits Tax	**(419)**	—
Deferred taxation	**122**	(40)
	(186)	4,196

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits arising in or derived from Hong Kong for the year ended 31 December 2013 (2012: 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%.

For the year ended 31 December 2013, the relevant tax rate adopted by Fung Ching is 25%.

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

7. (LOSS)/PROFIT FOR THE YEAR

	2013	2012
	HK$'000	*HK$'000*
(Loss)/profit for the year has been arrived at after charging:		
Directors' emoluments	**4,370**	3,458
Salaries and allowances (excluding directors' emoluments)	**25,790**	25,121
Retirement benefit scheme contributions (excluding directors)	**914**	843
Total staff costs	**31,074**	29,422
Auditor's remuneration	**780**	760
Amortisation of prepaid lease payment	**—**	55
Cost of inventories recognised	**256,573**	323,989
Depreciation of plant and equipment	**12,900**	12,510
Loss on change in fair value of derivative financial instruments	**—**	150
Net exchange loss	**538**	1,260
Operating lease rental paid in respect of rented — office premises	**6,363**	5,331
Processing fees *(Note)*	**50,036**	45,746
Sub-contracting fee (included in cost of sales)	**59,461**	82,391

Note:

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

	2013	2012
	HK$'000	*HK$'000*
Salaries and allowances	**17,814**	15,197
Factory's lease	**2,133**	1,752
Labour cost — direct and indirect	**27,007**	25,534
Utilities	**3,082**	3,263
	32,222	30,549
	50,036	45,746

8. DIVIDENDS

No dividend has been declared by the Company for the year ended 31 December 2013 (2012: Nil).

9. (LOSS)/EARNINGS PER SHARE

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

	2013	2012
	HK$'000	*HK$'000*
(Loss)/earnings		
(Loss)/earnings for the purpose of basic (loss)/earnings per share	**(7,189)**	13,738

	2013	2012
	'000	*'000*
		(restated)
Number of shares		
Weighted average number ordinary shares for the purpose of basic (loss)/earnings per share	**832,000**	832,000

The weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share for the years ended 31 December 2013 and 2012 has been adjusted for the subdivision of shares as approved by the Company's shareholders on 5 March 2014.

The diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share as there were no dilutive potential ordinary shares during the years ended 31 December 2013 and 2012.

10. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**27,811**	44,026
Other receivables	**10,267**	3,980
Investment deposits *(Note)*	**3,816**	—
Prepayment	**2,963**	2,321
	44,857	50,327

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:

	2013	2012
	HK$'000	*HK$'000*
0 to 45 days	**27,794**	40,717
46 to 90 days	**12**	2,721
91 to 365 days	**—**	48
Over 365 days	**5**	540
	27,811	44,026

Note: As at 31 December 2013, the Group purchased investment deposits from a domestic bank with good credit rating and the deposits carry a variable return of a cap of 5.7% per annum.

11. TRADE AND OTHER PAYABLES

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**10,919**	19,686
Receipt in advance	**1,528**	1,414
Other payables	**23,949**	17,631
	36,396	38,731

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

	2013	2012
	HK$'000	*HK$'000*
0 to 90 days	**10,008**	18,966
91 to 365 days	**313**	637
Over 365 days	**598**	83
	10,919	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.

FINANCIAL REVIEW AND ANALYSIS

For the year ended 31 December 2013

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 2013, the Group recorded a turnover of approximately HK$310,867,000, showing an decrease of approximately 22.3% from the 2012's turnover of approximately HK$400,035,000, which was mainly attributable to an decrease by approximately 28.8% in sales orders from one of the major customers of the Group headquartered in the USA. It results turnover generated by customers headquartered in the USA decreased from approximately 65.7% to 60.4%. As compared with turnover in previous year, turnover generated by customers headquartered in European countries and Canada increased from approximately 21.8% to 27.0% and increased from approximately 5.8% to 6.6% respectively, whilst revenue generated from other countries decreased from approximately 6.7% to 6.0%.

Gross profit of the Group for the year ended 31 December 2013 decreased by approximately 28.6% from approximately HK$76,046,000 in previous year to HK$54,294,000 in 2013. Moreover, the gross profit margin decreased from approximately 19.0% in 2012 to 17.5% in 2013 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 2013, the Group recorded a loss of approximately HK$7,189,000 as against a profit of approximately HK$13,738,000 for the previous year. It mainly attributable to (i) the decreases in turnover and gross profit margin of the Group as a result of the worsening of the market conditions and business environment and the severe competition of the textile industry as mentioned above, (ii) an increase in general and administrative expenses in seeking new revenue stream to diversify a business risk on single segment of manufacturing and trading of high quality fashion apparels; and (iii) an increase in legal and professional fees incurred for the proposed of placing in the shares and the convertible bonds of the Company and handling legal case.

FINANCIAL POSITION AND LIQUIDITY

As at 31 December 2013, the Group recorded total assets of approximately HK$188,982,000, which were financed by equity of approximately HK$132,613,000 and liabilities of approximately HK$56,369,000. The Group had total cash and bank balances of approximately HK$84,584,000. The current ratio (current assets divided by current liabilities) of the Group increased from 2.46 times as at 31 December 2012 to 2.80 times as at 31 December 2013.

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. As informed by the District Court on 17 September 2013, this case has been transferred to the District Court.

Based on the legal advice, the Directors are of the opinion that the Group has meritorious defenses against the Supplier. Therefore no provision for this claim has been made in the consolidated financial statements for the year ended 31 December 2013.

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 2013, the unused proceeds of HK$4,000,000 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 2013:

			As at 31 December 2013		
	Original intended use of proceeds	**Revised intended use of proceeds**	**Net proceeds** *(HK$ million)*	**Utilised amount** *(HK$ million)*	**Unutilised amount** *(HK$ million)*
1	construction of new production factory on the Land	reallocated as general working capital	17.3	17.3	—
2	acquisition of an additional 220 sets of computerised knitting machines	remaining unchanged	18.1	14.1	4.0

	Original intended use of proceeds	Revised intended use of proceeds	As at 31 December 2013 Net proceeds *(HK$ million)*	 Utilised amount *(HK$ million)*	 Unutilised amount *(HK$ million)*
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 2013 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 2013, the Group has workforce of approximately 1,100 persons including five executive Directors, one non-executive Director 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 2013, no share options were granted by the Company since the adoption of the Scheme.

OUTLOOK

Knitwear Business

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. Under the situation of slowing recovery of the global economic, the prospect of the textile industry will be still in a tough times for a while. Downward pressure on both the sales volume and selling prices of the Group's product will affect the financial performance in first half year of 2014 continuously. However, compare with continuing inflation in Renminbi in last few years, the inflation step of Renminbi presented slight slowdown in first quarter of 2014. There is a positive effect for reducing manufacturing cost in PRC and improving the profit margin of our products. In meanwhile, the Group will continue to focus on product quality by manufacturing novel, complicated designs to attract new customers and cost control.

Finance Leasing Business

In view of the outlook of the textile industry, the Group intends to diversify its business scope into the finance leasing business because of the promising prospect of the finance leasing industry in the PRC. According to the research report in relation to the finance leasing industry issued in July 2013 by Orient Finance Holdings (Hong Kong) Limited, based on the statistics of the World Leasing Yearbook, currently, the market penetration rate of finance leasing of more developed countries is between approximately 15% and approximately 30%. In the PRC, despite the continuous increment in the market penetration rate of finance leasing in recent years, with approximately 0.17% in 2007 to approximately 4.14% in 2012, it is still lagging far behind the average standard of more developed countries and it is conservatively forecasted that the industry will maintain a compound growth rate of over 30% in the forthcoming five years. In view of this and of the favorable policy environment, the Group considers the finance leasing industry in the PRC has a vast room for development and the diversification into finance leasing business will be in the interests of the Group and the Shareholders as a whole.

To seize this business opportunity, the Group has entered into a transfer agreement on 20 November 2013 to procure 8% equity interest in a joint-venture company, Shanxi Coking Coal Machinery Electric Co., Ltd., and has also set up a wholly foreign-owned enterprise Shanxi Huawei Finance Leasing Company Limited in the PRC to carry out the finance leasing business. The Group is poised to capture the huge market demand and become a leading professional finance leasing company in the PRC in the long run.

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 2013.

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 2013.

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 2013 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, 28 March 2014

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.