FORNTON GROUP LIMITED
豐臨集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1152)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014

The Board of Directors of Fornton Group Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014 as follows. The interim results have not been audited, but have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	4	**111,129**	101,295
Cost of sales		**(96,939)**	(84,657)
Gross profit		**14,190**	16,638
Other operating income	4	**1,791**	3,492
Selling and distribution expenses		**(4,212)**	(4,341)
Administrative and other expenses		**(31,271)**	(25,712)
Finance costs	6	**(3,357)**	(189)
Loss before taxation		**(22,859)**	(10,112)
Income tax credit	7	**1,645**	1,276
Loss for the period	8	**(21,214)**	(8,836)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences arising on translation of foreign operations		**(404)**	531
Total comprehensive expenses for the period		**(21,618)**	(8,305)
Loss per share (HK cents)			
Basic and diluted	10	**(2.4)**	(1.1)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2014

	Notes	30.6.2014 HK$'000 (Unaudited)	31.12.2013 HK$'000 (Audited)
Non-current assets			
Plant and equipment	11	**24,568**	31,633
Deposit paid for acquisition of plant and equipment		**2,129**	2,036
Deferred tax assets		**1,914**	—
		28,611	33,669
Current assets			
Inventories		**47,062**	22,960
Trade and other receivables	12	**45,876**	44,857
Tax recoverable		**2,912**	2,912
Bank balances and cash		**480,882**	84,584
		576,732	155,313
Current liabilities			
Trade and other payables	13	**48,699**	36,396
Amounts due to a director	14	**—**	565
Derivative financial instruments	15	**660**	—
Bank borrowings		**31,228**	18,045
Obligation under finance leases — due within one year		**250**	244
Income tax payables		**234**	234
		81,071	55,484
Net current assets		**495,661**	99,829
Total assets less current liabilities		**524,272**	133,498
Non-current liabilities			
Convertible bonds	16	**272,965**	—
Obligations under finance leases — due after one year		**582**	709
Deferred tax liabilities		**190**	176
		273,737	885
		250,535	132,613
Capital and reserves			
Share capital		**4,760**	4,160
Reserves		**245,775**	128,453
		250,535	132,613

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL

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

The Company acts as an investment holding company and its subsidiaries are principally engaged in the following major segments: textiles and finance leasing.

The segment of textile is principally engaged in the sub-contracting of knitted garment and the manufacture and trading of knitwear.

The segment of finance leasing is principally engaged in finance leasing business, leasing business, purchasing of leased assets at domestic and overseas market, disposal of residual value and maintenance of leased assets, provision of consultation and guarantees for lease transactions, import and export of equipment, automatic system engineering and software system engineering.

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

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs").

The condensed consolidated interim financial statements incorporate the financial position of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new or revised HKFRSs and HKASs issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2014.

Amendments to HKFRS 10, HKFRS 12 and HKFRS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable amount disclosure for non-financial assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Account
HK (IFRIC)-Int 21	Levies

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

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

Amendments to HKAS 19 (as revised in 2011)	Defined Benefit Plans: Employee Contributions[1]
Annual Improvements Project	Annual improvements 2010–2012 cycle[1]
Annual Improvements Project	Annual improvements 2011–2013 cycle[1]
Amendments to HKAS 16 and HKAS 38	Classification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[2]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customer[3]
HKFRS 9	Financial Instrument[4]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]

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

2 Effective for annual periods beginning on or after 1 January 2016

3 Effective for annual periods beginning on or after 1 January 2017

4 HKFRS 9, as amended in December 2013, amended the mandatory effective date of HKFRS 9. The mandatory effective date is not specified in HKFRS 9 but will be determined when the outstanding phases are finalised. However, application of HKFRS 9 is permitted.

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

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 relaxed taxes.

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Turnover		
Sales of knitted products	**77,582**	101,295
Import and export of equipment	**33,547**	—
	111,129	101,295
Other operating income		
Net investment income from derivative financial instruments	**196**	1,268
Bank interest income	**465**	200
Gain on disposal of plant and equipment	**72**	14
Sales of scrapped materials	**932**	1,700
Sundry income	**126**	310
	1,791	3,492

(i) Import and export of equipment was generated from a single transaction and details of which are set out in Company's announcement dated 24 December 2013.

5. SEGMENT INFORMATION

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 board of directors as they collectively make strategic decision in allocating the Group's resources and assessing performance.

Business segment information

The Group is organised into two business divisions including textiles and finance leasing which form the Group's two operating segments. The segment of textiles is principally engaged in the sub-contracting of knitted garment and the manufacture and trading of knitwear. The segment of finance leasing is principally engaged in finance leasing business, leasing business, purchasing of leased assets at domestic and overseas market, disposal of residual value and maintenance of leased assets, provision of consultation and guarantees for lease transactions, import and export of equipment, automatic system engineering and software system engineering. No sales between operating segments are undertaken.

Unallocated mainly refers to interest income earned from cash and cash equivalents held at corporate level and general and administrative expenses incurred at corporate level.

	Six months ended 30 June 2014			
	Textiles	**Finance leasing**	**Unallocated**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenues	77,582	33,547	—	111,129
Segment results	(12,478)	(4,340)	(2,684)	(19,502)
Finance costs				(3,357)
Loss before taxation				(22,859)
Income tax credit				1,645
Loss for the period				(21,214)

The Group engaged in a single segment of the production and trading of knitwear during the six months ended 30 June 2013.

Geographical information — Textiles

The segment's operations are located in Hong Kong and the People Republic of China (the "PRC").

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

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
USA	**44,458**	49,591
Europe	**27,579**	41,693
Canada	**3,809**	4,757
Asia	**1,736**	5,254
	77,582	101,295

Less than 1% of the segment's revenue from external customers is derived from Hong Kong (country of domicile) during the two periods ended 30 June 2014 and 2013.

Information about major customers — Textiles

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**55,032**	58,528
Customer B	**N/A***	11,170

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

6. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest expenses on:		
— bank borrowings wholly repayable:		
— within five years	**97**	141
— trust receipt loans	**12**	—
— obligations under finance leases	**33**	48
— convertible bonds	**3,215**	—
	3,357	189

7. INCOME TAX CREDIT

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
— Hong Kong Profits Tax	**—**	76
— PRC Enterprise Income Tax ("EIT")	**255**	527
	255	603
Deferred taxation	**(1,900)**	(1,879)
	(1,645)	(1,276)

(i) Hong Kong Profits Tax was calculated at 16.5% of the assessable profits arising in Hong Kong for the two periods ended 30 June 2014 and 2013.

(ii) Dongguan Fung Ching Knitting Limited* ("Fung Ching") (東莞豐正針織有限公司), being an indirect wholly-owned subsidiary of the Company, is a wholly-owned foreign investment enterprise and subject to EIT at 25% of Fung Ching's estimated profits for the two periods ended 30 June 2014 and 2013.

(iii) HK$1,900,000 of deferred tax assets had been recognised for the six months ended 30 June 2014 in respect of unused tax loss for the period.

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

8. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period has been arrived at after charging:		
Cost of import and export of equipment	**32,598**	—
Depreciation of plant and equipment	**6,367**	6,361
Loss on change in fair value of derivative financial instruments	**660**	250
Net exchange loss	**386**	314
Operating lease rental paid in respect of rented — office premises	**3,882**	1,784
Processing fees *(Note)*	**20,518**	21,148
Sub-contracting fee (included in cost of sales)	**14,173**	19,211

Note:

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Salaries and allowances	**8,355**	8,438
Factory's lease	**1,039**	892
Labour cost — direct and indirect	**9,663**	10,333
Utilities	**1,461**	1,485
	12,163	12,710
	20,518	21,148

9. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

10. LOSS PER SHARE

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss		
Loss for the purposes of basic and diluted earnings per share	**(21,214)**	(8,836)
Number of share ('000)		(Restated)
Weighted average number of ordinary shares for the purpose of basic loss per share	**867,138**	832,000

The weighted average number of ordinary shares in issue of six months ended 30 June 2014 represented 832,000,000 shares has been retrospectively adjusted to reflect the share subdivision, where each share of the Company of HK$0.01 per share was subdivided into 2 shares of HK$0.005 per share with effective from 5 March 2014 and the weight average of 120,000,000 shares issued on 9 May 2014.

The corresponding weighted average number of ordinary shares of six months ended 30 June 2013 has been retrospectively adjusted to reflect the share subdivision, where each share of the Company of HK$0.01 per share was subdivided into 2 shares of HK$0.005 per share with effective from 5 March 2014.

The diluted loss per share is equal to the basic loss per share as there was no dilutive potential ordinary shares outstanding during period ended 30 June 2013 and had an anti-dilutive effect on the basic loss per share during period ended 30 June 2014.

11. MOVEMENTS IN PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group incurred approximately HK$1,155,000 (six months ended 30 June 2013: HK$1,168,000) on the acquisition of plant and equipment.

12. TRADE AND OTHER RECEIVABLES

	30.6.2014	31.12.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**36,519**	27,811
Other receivables	**8,296**	10,267
Investment deposits	**—**	3,816
Prepayment	**1,061**	2,963
	45,876	44,857

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

	30.6.2014	31.12.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 45 days	**36,274**	27,794
46 to 90 days	**194**	12
91 to 365 days	**51**	—
Over 365 days	**—**	5
	36,519	27,811

13. TRADE AND OTHER PAYABLES

	30.6.2014	31.12.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**19,753**	10,919
Receipt in advance	**3,566**	1,528
Other payables	**25,380**	23,949
	48,699	36,396

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

	30.6.2014	31.12.2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 90 days	**18,906**	10,008
91 to 365 days	**266**	313
Over 365 days	**581**	598
	19,753	10,919

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.

14. AMOUNTS DUE TO A DIRECTOR

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

15. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2014, the Group entered into two deliverable structured forward contracts (the "Forward Contracts") (As at 31 December 2013: Nil) denominated in US$ and Renminbi with a bank.

The net fair value of the derivative financial instruments as at 30 June 2014 is approximately HK$660,000 in liabilities (As at 31 December 2013: HK$Nil). The loss arising from the change in fair value of derivative financial instruments of approximately HK$660,000 (six months ended 30 June 2013: HK$250,000) was recognised in profit or loss during the six months ended 30 June 2014.

16. CONVERTIBLE BONDS

The convertible bonds recognized in the condensed consolidated statement of financial position is calculated as follows:

	HK$'000
	(Unaudited)
Fair value of the convertible bonds issued on 9 May 2014	**276,809**
Transaction cost	**(7,059)**
Imputed interests charge	**3,215**
Liability component as at 30 June 2014	**272,965**

On 9 May 2014, the Group issued 5% per annum coupon rate convertible bonds of HK$300,000,000. The bonds mature in 36 months from the date of issuance and can be converted into shares at the holder's option at any time before the maturity date at an initial conversion price of HK$1 per share. The convertible bonds are transferable and non-redeemable.

Conversion price will be subject to adjustment for consolidation or subdivision, capitalization of profits or reserves, capital distribution, right issues and other dilutive events which may have adverse effects on the rights of the holder.

Interest expenses on the liability component of the convertible bonds are calculated using the effective interest method, applying the effective interest rate of 8% per annum to the liability component.

As at 30 June 2014, there was no conversion or redemption of the convertible bonds.

17. RELATED PARTY TRANSACTIONS

In addition to the balances detailed in the condensed consolidated interim financial statements and note 14, the Group entered into the following significant transactions with related parties during the period:

(a) Compensation of key management personnel

The remuneration of key management personnel during the two periods ended 30 June 2014 and 2013 are as follows:

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short-term employee benefits	**3,407**	2,987
Post-employment benefits	**61**	44
	3,468	3,031

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

(b) Other related parties transactions

		Six month ended 30 June	
Name of company	**Nature of transaction**	**2014**	2013
		HK$000	*HK$000*
		(Unaudited)	(Unaudited)
Long Rise Investment Development Limited ("Long Rise")	Rental charged therefrom	**1,350**	850

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

On 4 December 2013, the Group entered into a tenancy agreement with Long Rise in respect of the leasing of this property as the Group's headquarter, at an annual rental of HK$2,700,000.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2014 (2013: nil).

FINANCIAL PERFORMANCE AND BUSINESS REVIEW

During the six months ended 30 June 2014, the textile segment recorded a turnover of approximately HK$77,582,000, showing a decrease of 23.4% from approximately HK$101,295,000 for the corresponding period in last year. Gross profit of the textile segment decreased by 20.4% from approximately HK$16,638,000 for the six months ended 30 June 2013 to approximately HK$13,241,000 for the six months ended 30 June 2014 and the gross profit ratio slightly increase from approximately 16.43% for the six months ended 30 June 2013 to approximately 17.07% for the six months ended 30 June 2014. The decrease in turnover was a result of the worsening of the market conditions and business environment, the severe competition of the textile industry in Europe and USA.

In view of the declining market situation of the textile industry, the management of the Group was seeking new revenue stream proactively. The management considered the finance leasing industry in the PRC has a vast room for development and decided to diversify into the finance leasing business.

The Group started its trading business in coal mining related machineries and equipments as a stepping stone for the future development of the financial leasing business. On 24 December 2013, Sino Top Capital Resources Limited ("Sino Top"), an indirect wholly-owned subsidiary of the Company, entered into a supply contract with VLI Drilling Pty Ltd and a sales contract with Shanxi Coking Coal Group International Development Co Ltd for the intended cooperation in the development of in-seam directional systems leasing business. Further on 30 December 2013 and 13 January 2014, Sino Top entered into five letter of intents with potential customers.

On 10 January 2014, the Group obtained the certificate of approval issued by the Shanxi Provincial People's Government (山西省人民政府) in respect of the setting up of Shanxi Sino Top Leasing Company ("Shanxi Sino Top"), a wholly owned foreign enterprise established to carry out the finance leasing business in the PRC. The registration capital of Shanxi Sino Top is US$35,000,000 which has been fully paid up in early July 2014.

A transaction of import and export of machinery generated a turnover and gross profit of approximately HK$33,547,000 and HK$949,000 respectively during the six months ended 30 June 2014. To support the development of finance leasing segment, the Group issued 5% per annum coupon rate convertible bonds of HK$300,000,000 on 9 May 2014. The bonds will mature in 36 months from the date of issuance and can be converted into shares at the holder's option at any time before the maturity date at an initial conversion price of HK$1 per share. The bonds imputed additional interest expenses of approximately HK$3,215,000 for the six months ended 30 June 2014.

In summary, the Group recorded a loss of approximately HK$21,214,000 for the six months ended 30 June 2014 as compared with a loss of approximately HK$8,836,000 for the corresponding period in last year. The loss of the Group for the six months ended 30 June 2014 was primarily attributable to (i) the decreases in turnover and gross profit of the Group as a result of the worsening of the market conditions and business environment, the severe competition of the textile industry in Europe and USA, (ii) additional professional expenses incurred for the placing of new shares and convertible bonds, (iii) additional interest expenses incurred for the issued convertible bonds and (iv) additional general and administrative expenses in seeking new revenue stream to diversify the business risk on single segment of manufacturing and trading of high quality fashion apparels.

OUTLOOK

The prospect of the textile industry remains difficult and will be still in a tough times for a while. In view of the downward trend of the textile industry, the Group has diversified its business scope into the more promising finance leasing business in the PRC.

Finance leasing is developed to adapt the requirements of modern production and economic development, and, in general, features stronger adaptability across different industries and sectors. Finance leasing is a modern financial instrument that has become popular strategies for enterprises for renewal of their machinery technologies. In accordance with some researches, China's financial leasing market penetration rate is only about 5%, while the numbers in European and American markets are about 20%. China being the world's second largest economy, the Directors are of the view that China's financial leasing industry has huge space for development. To seize the business opportunity in this sun rise industry, the Group has started to develop the finance leasing business through Shanxi Sino Top.

The Group is poised to capture the huge market demand of the finance leasing industry and targets to become a leading professional finance leasing company in the PRC in the long run. In view of the favorable business 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 Company and the Shareholders as a whole.

FINANCIAL POSITION AND CAPITAL STRUCTURE

As at 30 June 2014, the Group recorded total assets of approximately HK$605,343,000 which were financed by equity of approximately HK$250,535,000 and liabilities of approximately HK$354,808,000. The gearing ratio of total borrowing as a percentage of total capital and reserves attributable to Shareholders was 121.8% as at 30 June 2014 and 14.8% as at 31 December 2013. The Group had cash and bank balances of approximately HK$480,882,000. As at 30 June 2014, the Group did not have any deposit pledged to secure bank overdrafts, short-term bank loans and unused banking facilities. The current ratio (current assets divided by current liabilities) of the Group increased from 2.8 times as at 31 December 2013 to 7.1 times as at 30 June 2014. The Group's operation was mainly financed by funds generated from its operation and borrowings. As at 30 June 2014, the borrowings were mainly denominated in Hong Kong dollars ("HK$"), while the cash and cash equivalents held by the Group were mainly denominated in HK$, Renminbi ("RMB") and United States dollars ("US$"). Save for the amounts due to a Director and related company, which are non-interest bearing, all of the Group's borrowings are on a floating rate basis.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE AND INTEREST RATE RISK

The Group continued to manage and monitor its interest rate and currency exchange risks exposure to ensure appropriate measures are implemented on timely and effective manner. The major interest-bearing bank borrowings of the Group carry interest at floating market rates of Hong Kong Interbank Offer Rate ("HIBOR") and London Interbank Offer Rate ("LIBOR") plus 1.0% to 1.125% per annum respectively.

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

CREDIT POLICY

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

CAPITAL EXPENDITURE

During the six months ended 30 June 2014, the Group invested approximately HK$1,155,000 (six months ended 30 June 2013: approximately HK$1,168,000) on acquisition of plant and equipment.

CHARGES ON ASSETS

As at 30 June 2014, the assets of the Group which were subject to charges for securing obligations under finance lease comprised a motor vehicle with carrying value amounting to approximately HK$956,000 (31 December 2013: approximately HK$1,107,000).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2014, the Group has workforce of approximately 900 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 and the current market condition with salaries and wages being reviewed on an annual basis. The Group also provided discretionary bonus, medical insurance, training programs, social security and provident fund to the staff of the Group. Pursuant to the written resolution of the shareholders of the Company on 11 October 2011, the Company has adopted a share option scheme (the "Scheme") for the purpose of motivating eligible participants. For the six months ended 30 June 2014, no share options were granted by the Company since the adoption of the Scheme.

SHARE OPTION SCHEME

Pursuant to the written resolution of the shareholders of the Company on 11 October 2011, the Company has adopted a share option scheme for the purpose of motivating eligible participants to optimise their performance and efficiency for the benefit of the Group. The Board of directors shall be entitled at any time on a business day within 10 years commencing on the effective date of the Scheme to offer the grant of option to any eligible participates.

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

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

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

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

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had complied throughout the six months ended 30 June 2014 with the code provisions set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 of the Listing Rules.

The Company has adopted a code of conduct (the "Code of Conduct") regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they had complied with the required standard set out in the Code of Conduct during the six months ended 30 June 2014.

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

AUDIT COMMITTEE

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

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

The Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2014 and discussed with the senior management the internal control and financial reporting matters as well as the accounting principles and practices adopted by the Group in relation to the preparation of the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2014.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

The results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at *www.hkexnews.hk* and the website of the Company at *www.fornton.com* under "Results Announcement". The interim report for the six months ended 30 June 2014 will be dispatched to the shareholders and published on the above websites in due course.

By Order of the Board
Fornton Group Limited
Yu Xueming
Chairman

Hong Kong, 28 August 2014

As at the date of this announcement, the Board comprises five executive namely, Mr. Yu Xueming (Chairman), Mr. Yu Chuanfu (Chief Executive Officer), Mr. Sit Yau Chiu, 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.