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FORNTON GROUP LIMITED

豐臨集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1152)

PROPOSED ISSUE OF PROMISSORY NOTES AND UNLISTED WARRANTS UNDER GENERAL MANDATE

On 17 October 2014, after trading hours of the Stock Exchange, the Company, the Guarantor and the Investor and the Agent entered into the Investment Agreement, pursuant to which the Company has conditionally agreed to issue and the Investor has conditionally agreed to subscribe for the Promissory Notes with an aggregate principal amount of up to HK\$150,000,000 and the Warrants which carry purchase rights to subscribe for Warrant Shares at the Exercise Price (being the initial price of HK\$1 per Warrant Share which is subject to normal adjustment) up to HK\$60,000,000 during the Exercise Period.

The Warrant Shares issued upon exercise of the purchase rights attaching to the Warrants will be issued under the General Mandate.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon exercise of the purchase rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

Completion of the Subscriptions is subject to the satisfaction of the conditions precedent under the Investment Agreement. As the Subscriptions may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

THE INVESTMENT AGREEMENT

Date: 17 October 2014 (after trading hours)

Issuer: The Company

Guarantor: Mr. Yu Xueming, the chairman of the Company

Investor/Agent: Chance Talent Management Company

On 17 October 2014, after trading hours of the Stock Exchange, the Company, the Guarantor, the Investor and the Agent entered into the Investment Agreement, pursuant to which the Company has conditionally agreed to issue and the Investor has conditionally agreed to subscribe for the Promissory Notes with an aggregate principal amount of up to HK\$150,000,000 and the Warrants which carry purchase rights to subscribe for Warrant Shares at the Exercise Price (being the initial price of HK\$1 per Warrant Share which is subject to normal adjustment) up to HK\$60,000,000 during the Exercise Period at the consideration of HK\$1.

The Investor is a limited liability company incorporated in the BVI. It is indirectly and wholly-owned by CCB International (Holdings) Limited (“CCBI”). CCBI is an investment services flagship which is indirectly and wholly-owned by China Construction Bank Corporation, a joint-stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 0939) and the Shanghai Stock Exchange (stock code: 601939).

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Investor and the Agent and their respective ultimate beneficial owners are Independent Third Parties.

Principal terms of the Promissory Notes

The principal terms of the Promissory Notes are summarised below:

Issuer:	The Company
Principal amount:	HK\$150,000,000
Final Maturity Date:	On the date following 24 months after the first issue of the Promissory Notes.
Form:	The Promissory Notes will be issued upon Completion in registered form.
Interest rate:	12.5% per annum, accrued from day to day on a 365 days basis with successive interest periods of 6 months and payable in advance for the first interest payment on the issue date and in arrears for the second, third and fourth interest payment.
Security:	The Promissory Notes will have the benefit of the security constituted by the Composite Share Mortgage and the personal guarantee provided by the Guarantor.
Status:	The Promissory Notes will be constituted by the Note Instrument and constitute direct, unconditional and secured obligations of the Company and shall at all times rank <i>pari passu</i> without any preference among themselves.

Transferability:	The Promissory Notes may be transferred to any person.
Early redemption:	The Company may, prior to the Final Maturity Date from and including the date falling 6 months from the date of issue redeem the Promissory Notes (in whole or in part), with all amounts of accrued interest, and without penalty.
Mandatory redemption:	<p>The Company must redeem the Promissory Notes in full the total principal amount outstanding and the interest accrued but unpaid thereunder upon the occurrence of an event of default.</p> <p>The Company must also redeem the Promissory Notes in whole or in part upon (a) a Warrantholder selects to settle in whole or in part of the total Exercise Price for subscription of Warrant Shares with any Promissory Notes held by him; and (b) the occurrence of a mandatory redemption event (i.e. the ratio of the Collateral Value to an amount that is equal to the total principal amount of the Promissory Notes outstanding on a trading day is less than 2 to 1) in an amount such that immediately after redemption of such amount of the Promissory Notes such ratio of the Collateral Value to the Promissory Notes at its aggregate outstanding principal amount on a trading day will be more than 3 to 1.</p>

Principal terms of the Warrants

The principal terms of the Warrants are summarised below:

Issuer:	The Company
Consideration:	The Warrants will be issued at the consideration of HK\$1.
Number of Warrants:	60,000,000 Warrants, to be issued by the Company will confer the Investor the rights to subscribe up to 60,000,000 Warrant Shares.

Based on the initial Exercise Price of HK\$1 per Warrant Share and assuming that there will not be any change in the issued share capital of the Company before the exercise of the purchase rights in full (other than the issue of the Warrant Shares), upon the exercise of the purchase rights in full, 60,000,000 Warrant Shares will be issued, representing approximately 6.30% of the existing issued share capital of the Company and approximately 5.93% of the issued share capital as enlarged by the allotment and issue of the Warrant Shares. On such basis, the maximum nominal value of the Warrant Shares will be HK\$60,000,000.

Exercise Price:	Each Warrant will carry the right to subscribe for one Share at an initial Exercise Price of HK\$1 per Warrant Share, subject to normal adjustment.
Exercise Period:	The purchase rights attaching to the Warrants may be exercised at any time from the date of issue of the Warrants and ending on the Final Maturity Date.
Status:	The Warrants will be constituted by way of Warrant Instrument. The Warrants will rank <i>pari passu</i> without any preference among themselves.
Form:	The Warrants will be issued upon Completion in registered form.
Rights of the Warrant Shares:	The Warrant Shares that fall to be issued upon the exercise of the purchase rights attaching to the Warrants will rank <i>pari passu</i> in all respects with the Shares in issue on the relevant date of registration of the name of the relevant holder(s) of the Warrants on the register of members of the Company as holder of such Warrant Shares.
Transferability:	The Warrants are transferable.
Rights of Warrants:	The Warrantholders will not have any right to attend or vote at any meeting of the Company by virtue of them being the Warrantholders. The Warrantholders shall not have the right to participate in any distributions and/or offers of further securities made by the Company.
Limitations on exercise of the purchase rights attaching to the Warrants:	The purchase rights attaching to the Warrants shall only be exercisable so long as if such rights were immediately exercised, when aggregated with all other equity securities which remain to be issued on exercise of any other subscription rights, will not be or exceed 20 per cent (20%) of the issued share capital of the Company at the time of issue of the Warrants.

Basis of pricing of the Warrants

The initial Exercise Price of HK\$1 per Warrant Share represents:

- (i) a discount of approximately 5.66% to the closing price of HK\$1.06 per Share quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 8.26% to the average of the closing prices of HK\$1.09 per Share for the last five consecutive trading days for the Shares prior to the Last Trading Day; and

(iii) a premium of approximately 212.50% to the audited net asset value per Share attributable to the Shareholders of approximately HK\$0.32 as at 31 December 2013.

The Exercise Price is subject to adjustments in the event of, among others, share consolidation, subdivision, capital distribution, issue of Shares by way of capitalization of profits or reserves, rights issues of Shares, grant of options or warrants over Shares, issue of other convertible securities for cash as well as buy-back of Shares (excluding any on exchange purchase) by the Company. Such adjustment shall be certified by an approved investment bank.

The Exercise Price was determined after arm's length negotiations between the Company and the Investor, taking into account the recent trading prices of the Shares. The Directors consider that the Exercise Price is fair and reasonable and in the best interest of the Company and the Shareholders as a whole.

General Mandate for issue of the Warrant Shares

The Warrant Shares will be allotted and issued under the General Mandate granted to the Directors at the annual general meeting of the Company held on 4 June 2014 subject to the limit of 190,400,000 Shares (representing 20% of the aggregate nominal amount of the share capital of the Company in issue on that date). Thus, the Warrant Subscription is not subject to the approval of the Shareholders of the Company.

The 60,000,000 Warrant Shares, to be allotted and issued upon full exercise of the purchase rights attaching to the Warrants, will utilise approximately 31.51% of the General Mandate. The General Mandate has not been previously utilized prior to the Warrant Subscription.

Application for listing of Warrant Shares

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon exercise of the purchase rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

Conditions Precedent for Subscriptions

The Subscriptions by the Investor is conditional on, among other matters, the fulfillment of the following conditions:

- (i) the Investor having received all of the conditions precedent documents in form and substance satisfactory to it;
- (ii) the representations and warranties of the Company and the Guarantor contained in the Investment Agreement remains correct on the date of the Investment Agreement and thereafter;
- (iii) no default is outstanding or would result from the issuance by the Company of the Promissory Notes and the Warrants to the Investor;

- (iv) the Security Provider has deposited not less than 416,000,000 Shares into the collateral accounts;
- (v) satisfactory commercial, financial and legal due diligence of the Guarantor, each Security Provider, the Group and their respective business;
- (vi) approval of the transactions contemplated under the Investment Agreement from the investment committee of the Investor has been obtained and such approval not being revoked;
- (vii) the Listing Committee of the Stock Exchange has granted approval for the listing of, and permission to deal in, the Warrant Shares falling to be issued upon exercise of the purchase rights attached to the Warrants;
- (viii) the Investor having received evidence that the Company has sufficient amount of authorised but unissued share capital in the Company authorised to be issued pursuant to the General Mandate to enable it to perform its obligations under the Warrant Instrument when the Warrants are exercised in full; and
- (ix) the Investor is satisfied with the results of all necessary “know your customer” requirements.

In the event that the above conditions are not fulfilled or waived (except item (vii) above) on or before the Long Stop Date, the Subscriptions will lapse and become null and void and the Investor shall be released from all rights, obligations and liabilities for the Subscriptions under the Investment Agreement, save for any liabilities for any antecedent breaches thereof.

Completion of the Subscriptions

The Promissory Notes and the Warrants will be issued to the Investor after fulfillment of the conditions precedent and on the 5th Business Day after the Company serving a completion notice to the Investor in writing or at such time as the Company and the Investor may agree.

REASONS FOR THE SUBSCRIPTIONS

The Company is an investment holding company. The Group is principally engaged in the following major segments: textiles and finance leasing.

The reasons for the Promissory Note Subscription are to increase the working capital and to enhance the financial flexibility of the Company.

The Board considers that the Subscriptions are an appropriate means of fund raising for the Company as it does not have any immediate dilution effect on the shareholding of the existing Shareholders. In addition to the net proceeds that would be raised upon issue of the Promissory Notes, further capital would be raised upon exercise of the purchase rights attaching to the Warrants.

The Board considers that the Promissory Note Subscription and the issue of the Warrant Shares provide opportunities for the Group to strengthen the Group’s capital base and financial position to better equip the Group with the financial flexibility for development of the business of the Group.

The Directors (including the independent non-executive Directors) consider that the terms of the Investment Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

It is expected that gross proceeds of approximately HK\$150,000,000 will be raised by the Promissory Note Subscription and the net proceeds of approximately HK\$149,000,000 arising therefrom will be utilised by the Group as firstly, payment of any fees, costs and expenses under, or in connection with the Investment Agreement; secondly, payment of an amount equal to the amount of interest that will accrue under the Promissory Notes from (and including) the issue date to (but excluding) the date falling six months after the issue date; and thirdly, financing working capital and corporate funding requirement of the Company.

In respect of the Warrant Subscription, assuming the full exercise of the purchase rights attaching to the Warrants, it is expected that gross proceeds of approximately HK\$60,000,000 will be raised. The net proceeds of approximately HK\$59,900,000 will be used for general working capital of the Group, capital expenditures and future investment of the Group. The net price to the Company of each Warrant Share, which is calculated by dividing the net proceeds by the total number of Warrant Shares, will be approximately HK\$0.9983.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Warrant Shares to be issued upon the exercise of all Warrants, when aggregated with all other equity securities which remain to be issued on exercise of all other subscription rights, will not exceed 20% of the issued share capital of the Company.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

The Company completed the placing of 120,000,000 Shares at the placing price of HK\$1.00 per placing share and the convertible bonds in an aggregate principal amount of HK\$300,000,000 at the conversion price of HK\$1.00 per conversion share on 9 May 2014. For details of the placing, please refer to the circular of the Company dated 17 February 2014 and the announcement of the Company dated 9 May 2014.

The net proceeds arose from the said placing is approximately HK\$413.7 million. Out of which approximately HK\$272 million has been applied as the registered capital of a wholly-owned subsidiary of the Company, which is principally engaged in the development of the finance leasing business in the PRC.

Except for the fund raising activity as mentioned above, the Company has not conducted an equity fund raising activity in the 12 months immediately preceding the date of this announcement.

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming there being no other changes in the share capital of the Company, the shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after exercise of the purchase rights attaching to the Warrants in full (assuming that there will not be any change in the issued share capital of the Company before the exercise of such purchase rights) are as follows:

Shareholders	As at the date of this announcement		Immediately after exercise of the purchase rights attaching to the Warrants in full (assuming that there will not be any change in the issued share capital of the Company before the exercise of such purchase rights)	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Billion Mission Limited ^(Note 1)	208,000,000	21.85	208,000,000	20.55
Top Star Group Holdings Ltd. ^(Note 2)	208,000,000	21.85	208,000,000	20.55
Integrated Asset Management (Asia) Limited ^(Note 3)	177,000,000	18.59	177,000,000	17.49
Shanxi Coking Coal Electrical (Hong Kong) Co., Limited ^(Note 4)	120,000,000	12.61	120,000,000	11.86
Warrantholders	0	0.00	60,000,000	5.93
Other public Shareholders	<u>239,000,000</u>	<u>25.10</u>	<u>239,000,000</u>	<u>23.62</u>
Total	<u>952,000,000</u>	<u>100.00</u>	<u>1,012,000,000</u>	<u>100.00</u>

Notes:

1. Mr. Zheng Qiang, being the executive Director of the Company, is the beneficial owner of the entire issued share capital of Billion Mission Limited.
2. Mr. Sit Yau Chiu, being the executive Director of the Company, is the ultimate beneficial owner of the entire issued share capital of Top Star Group Holdings Ltd..
3. Mr. Yam Tak Cheung is the beneficial owner of the entire issued share capital of Integrated Asset Management (Asia) Limited.
4. Shanxi Coking Coal Electrical (Hong Kong) Co., Limited is a wholly-owned subsidiary of 山西焦煤集團有限責任公司 (Shanxi Coking Coal Group Co., Limited*).

Completion of the Subscriptions is subject to the satisfaction of the conditions precedent under the Investment Agreement. As the Subscriptions may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

“Agent”	Chance Talent Management Limited, a limited company incorporated under the laws of the BVI, acting as the initial investor, as well as an agent and trustee for subsequent transferees of the Promissory Notes and the Warrants (also referred to as the “Investor”)
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“BVI”	British Virgin Islands
“Collateral Value”	an amount equal to the product of the number of Shares pledged under the Composite Share Mortgage on a trading date; and the closing price of a Share on that trading date as published by the Stock Exchange or, if such price is not published by the Stock Exchange, as determined by the Agent in its sole discretion
“Company”	Fornton Group Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	On the 5th Business Day after the Company serving a completion notice to the Investor in writing or at such time as the Company and the Investor may agree
“Composite Share Mortgage”	the share mortgage between each Security Provider and the Agent in respect of a mortgage over all the Shares held by each Security Provider, i.e. a total of not less than 416,000,000 Shares
“connected person(s)”	has the meaning ascribed to this term under the Listing Rules
“Director(s)”	director(s) of the Company for the time being

“Exercise Price”	the initial exercise price of HK\$1 per Warrant Share (subject to normal adjustment)
“Exercise Period”	the period from the date of issue of the Warrants and ending on the Final Maturity Date
“Final Maturity Date”	the date falling 24 months from the date of issue of Promissory Notes or Warrants, as the case may be
“General Mandate”	general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company convened and held on 4 June 2014
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Yu Xueming (余學明), the chairman of the Company, acting as an individual guarantor in respect of the punctual performance by the Company of all its obligations under the Investment Agreement and its ancillary documents
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	party(ies) which is/are not connected person(s) (as defined under the Listing Rules) of the Company and is/are independent of the Company and its connected persons
“Investment Agreement”	the investment agreement entered into among the Company, the Investor and the Agent dated 17 October 2014 in relation to the Subscriptions
“Investor”	Chance Talent Management Limited, a limited company incorporated under the laws of the BVI, acting as the initial investor, as well as an agent and trustee for subsequent transferees of the Promissory Notes and the Warrants (also referred to as the “Agent”)
“Last Trading Day”	17 October 2014, being the last trading day for the Shares before the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	the date falling 3 months after the date of the Investment Agreement

“Note Instrument”	a separate instrument to be executed by the Company by way of a deed poll containing terms of the Promissory Notes
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Promissory Notes”	the twelve one half per cent secured promissory notes in the aggregate principal amount of HK\$150,000,000 due on the Final Maturity Date
“Promissory Note Subscription”	the subscription of Promissory Notes
“Security Provider”	Top Star Group Holdings Ltd., a BVI company incorporated under the laws of BVI and company number 1754500, the legal and beneficial owner of 208,000,000 Shares; or Billion Mission Limited, a company incorporated under the laws of Anguilla and company number 2262289, the legal and beneficial owner of 208,000,000 Shares
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of HK\$0.005 each in the share capital of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscriptions”	Promissory Note Subscription and Warrant Subscription
“Warrants”	unlisted warrants to be issued by the Company, entitling the holder thereof to subscribe in cash in aggregate up to HK\$60,000,000 for the Warrant Shares at the Exercise Price (subject to adjustment pursuant to the Warrant Instrument) at any time commencing from the date of issue of the Warrants and ending on the Final Maturity Date
“Warrantholder(s)”	holder(s) of the Warrants
“Warrant Instrument”	a separate instrument to be executed by the Company by way of a deed poll containing terms of the Warrants, including the adjustment mechanisms of the initial Exercise Price for Warrant Shares
“Warrant Shares”	up to initially 60,000,000 new Shares to be allotted and issued upon exercise in full of the purchase rights attaching to the Warrants

“Warrant Subscription” the subscription of the Warrants

“%” per cent.

By Order of the Board
Fornton Group Limited
Yu Xueming
Chairman

Hong Kong, 17 October 2014

As at the date of this announcement, the Board comprises five executive Directors, 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, Heman and two independent non-executive Directors, namely, Mr. Wang Wei Hung and Mr. Sin Ka Man.