



Interim
Report
2012

FORNTON
FORNTON GROUP LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 1152

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CORPORATE INFORMATION



BOARD OF DIRECTORS

Executive directors

Mr. Yam Tak Cheung (*Chairman*)
Ms. Wong Kan Kan, Kandy
Mr. Wong Tat Wai, Derek

Independent non-executive directors

Mr. Wang Wei Hung, Andrew
Mr. Cheng Dickson
Mr. Sin Ka Man

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton
HM11
Bermuda

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit A, 32nd Floor
Legend Tower
7 Shing Yip Street
Kwun Tong
Kowloon

COMPLIANCE ADVISER

Optima Capital Limited
Suite 1501, 15th Floor
Jardine House
1 Connaught Place
Central, Hong Kong

COMPANY SECRETARY

Mr. Lee Sze Wai, CPA

AUTHORISED REPRESENTATIVES

Ms. Wong Kan Kan, Kandy
Flat B, 39/F
Block 1
Clovally Court
12 May Road
Hong Kong

Mr. Lee Sze Wai
Flat B1, Floor 19
Block B, Greenfield Terrace
26 Ho Man Tin Hill Road
Kowloon

BERMUDA RESIDENT REPRESENTATIVE

Codan Services Limited
Clarendon House
2 Church Street
Hamilton
HM11
Bermuda

CORPORATE INFORMATION (CONTINUED)

MEMBERS OF THE AUDIT COMMITTEE

Mr. Sin Ka Man (*Chairman*)
Mr. Wang Wei Hung, Andrew
Mr. Cheng Dickson

MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Cheng Dickson (*Chairman*)
Ms. Wong Kan Kan, Kandy
Mr. Wang Wei Hung, Andrew
Mr. Sin Ka Man

MEMBERS OF THE NOMINATION COMMITTEE

Mr. Wang Wei Hung, Andrew (*Chairman*)
Mr. Cheng Dickson
Mr. Sin Ka Man

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18/F., Fook Lee Commercial Centre
Town Place, 33 Lockhart Road
Wan Chai
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
11/F., The Centre
99 Queen's Road Central
Hong Kong

AUDITOR

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

COMPANY'S WEBSITE

www.fornnton.com

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

The board of directors (the "Board") of Fornton Group Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2012 together with the comparative figures as follows:

	Notes	Six months ended 30 June	
		2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Turnover	4	106,804	119,846
Cost of sales		(86,372)	(92,506)
Gross profit		20,432	27,340
Other operating income	4	4,235	2,203
Selling and distribution expenses		(3,557)	(4,256)
Administrative and other expenses		(25,847)	(23,470)
Finance costs	6	(265)	(284)
(Loss) profit before taxation		(5,002)	1,533
Income tax credit (expense)	7	434	(621)
(Loss) profit for the period	8	(4,568)	912
Exchange differences arising on translation of foreign operations and total other comprehensive income		130	502
Total comprehensive (expenses) income for the period		(4,438)	1,414
(Loss) earnings per share (HK cents)			
Basic and diluted	10	(1.1)	0.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	30.6.2012 HK\$'000 (Unaudited)	31.12.2011 HK\$'000 (Audited)
Non-current assets			
Plant and equipment	11	44,178	49,542
Deposit paid for acquisition of plant and equipment		2,022	872
Prepaid lease payment	11	—	13,880
Deferred taxation		849	—
		47,049	64,294
Current assets			
Inventories		105,447	26,987
Prepaid lease payment		—	327
Trade and other receivables	12	73,284	52,682
Derivative financial instruments	13	500	700
Tax recoverable		254	254
Pledge bank deposits		3,000	3,000
Bank balances and cash		37,984	47,975
		220,469	131,925
Current liabilities			
Trade and other payables	14	61,123	32,037
Amounts due to directors	15	29,740	3,640
Amount due to a related company	15	711	711
Bank borrowings	16	54,019	33,616
Obligation under finance leases — due within one year		210	210
Income tax payables		1,162	815
		146,965	71,029
Net current assets		73,504	60,896
Total assets less current liabilities		120,553	125,190

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2012

	<i>Notes</i>	30.6.2012 HK\$'000 (Unaudited)	31.12.2011 HK\$'000 (Audited)
Non-current liabilities			
Obligations under finance leases — due after one year		53	158
Deferred taxation		—	94
		53	252
		120,500	124,938
Capital and reserves			
Share capital	17	4,160	4,160
Reserves		116,340	120,778
		120,500	124,938

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000 (Note)	Exchange translation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2011 (audited)	2,023	—	8,020	249	53,487	63,779
Profit for the period	—	—	—	—	912	912
Other comprehensive income for the period	—	—	—	502	—	502
Total comprehensive income for the period	—	—	—	502	912	1,414
At 30 June 2011 (unaudited)	2,023	—	8,020	751	54,399	65,193
At 1 January 2012 (audited)	4,160	43,607	9,943	2,660	64,568	124,938
Loss for the period	—	—	—	—	(4,568)	(4,568)
Other comprehensive income for the period	—	—	—	130	—	130
Total comprehensive expenses for the period	—	—	—	130	(4,568)	(4,438)
At 30 June 2012 (unaudited)	4,160	43,607	9,943	2,790	60,000	120,500

Note: Other reserve represents the difference between the nominal value of the issued capital of subsidiaries acquired pursuant to a group organisation over the consideration paid for acquiring these subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Net cash from (used in) operating activities	48,942	(27,295)
Net cash (used in) from investing activities	(12,117)	43,793
Net cash used in financing activities	(46,826)	(43,656)
Net decrease in cash and cash equivalents	(10,001)	(27,158)
Cash and cash equivalents at 1 January	47,975	51,562
Effect on foreign exchange rates changes	10	225
Cash and cash equivalents at 30 June, represented by bank balances and cash	37,984	24,629

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. GENERAL

Fornton Group Limited (the "Company") was incorporated in Bermuda on 13 April 2011 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.

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

The shares of the Company have been listed on the Stock Exchange since 28 October 2011.

Since all entities which took part in the Reorganisation were under common control of a group of ultimate equity shareholders, the Group is regarded as a continuing entity resulting from the Reorganisation of entities under common control. The condensed consolidated interim financial statements of the Group for the six month ended 30 June 2011 have been prepared on the basis that the current group structure had been in existence at the beginning of the earliest period presented, using the principle of merger accounting as set out in the Accounting Guidelines 5 "Merger Accounting for common control considerations" issued by the Hong Kong Institutes of Certified Public Accountants (the "HKICPA"). Accordingly, the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2011 shown as comparatives in this report have been prepared as if the current group structure had been in existence throughout both periods presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the sub-contracting of knitted garment and the manufacture and trading of knitwear.

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 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 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs").

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

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 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs and HKAS issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2012.

Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

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 any other standards, interpretations or amendments that have been issued but are not yet effective.

The following amendments to standards have been issued after the date the consolidated financial statements for the year ended 31 December 2011 were authorised for issuance and are not yet effective.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle ¹
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹

¹ Effective for annual periods beginning on or after 1 January 2013

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

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 period is as follows:

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Turnover		
Sales of knitted products	106,804	119,846
Other operating income		
Change in fair value of derivative financial instruments	—	812
Net investment income from derivative financial instruments	912	—
Bank interest income	30	75
Gain on disposal of prepaid lease payment	2,017	—
Gain on disposal of plant and equipment	—	265
Sales of scrapped materials	1,027	813
Sundry income	249	238
	4,235	2,203

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

5. SEGMENT INFORMATION

The Group is engaged in a single segment, the production and trading of knitwear. The segment results are reported in a manner consistent with the internal reporting provided to the board of directors who is responsible for allocating resources and assessing performance of the operating segment and 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 People Republic of China (the "PRC"). The Group's customers are mainly located in the United States of America (the "USA"). An analysis of the Group's revenue from external customers based on their geographical location of their headquarters is detailed below:

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
USA	58,553	74,914
Europe	34,602	34,667
Canada	4,071	6,502
Asia	9,578	3,763
	106,804	119,846

Less than 1% of the Group's revenue from external customers is derived from Hong Kong (country of domicile) during the two periods ended 30 June 2012 and 2011.

The Group's information about its non-current assets based on geographical location of the assets is detailed below:

	Non-current assets	
	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Hong Kong	4,835	2,834
The PRC	42,214	61,460
	47,049	64,294

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

5. SEGMENT INFORMATION (Continued)

Information about major customers

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

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Customer A	67,770	82,296
Customer B	11,588	N/A*
Customer C	N/A*	12,705

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

6. FINANCE COSTS

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Interest expenses on:		
— bank borrowings wholly repayable:		
— within five years	228	71
— after five years	—	147
— trust receipt loans	22	51
— obligations under finance leases	15	15
	265	284

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

7. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Current tax		
— Hong Kong Profits Tax	343	400
— PRC Enterprise Income Tax ("EIT")	166	221
Deferred taxation	509 (943)	621 —
	(434)	621

- (i) Hong Kong Profits Tax was calculated at 16.5% of the Group's estimated profits for the two periods ended 30 June 2012 and 2011.
- (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 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 EIT from 1 January 2008 to 31 December 2009 and the applicable rate from 1 January 2010 to 31 December 2012 is 12.5%.
- (iii) HK\$943,000 of deferred tax assets had been recognised for the six months ended 30 June 2012 in respect of unused tax loss for the period.

* The English name is for identification purpose only.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

8. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) profit for the period has been arrived at after charging :		
Amortisation of prepaid lease payment	55	155
Depreciation of plant and equipment	6,248	2,977
Loss on change in fair value of derivative financial instruments	200	—
Loss on written off of plant and equipment	—	30
Net exchange loss	390	115
Operating lease rental paid in respect of rented — office premises	1,789	1,776
Processing fees (Note)	20,818	17,100
Sub-contracting fee (included in cost of sales)	19,846	40,852

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

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries and allowances	7,429	5,868
Factory's lease	889	864
Labour cost — direct and indirect	10,974	9,089
Utilities	1,526	1,279
	13,389	11,232
	20,818	17,100

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 2012 (six months ended 30 June 2011: nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

10. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
(Loss) earnings		
(Loss) earnings for the purposes of basic and diluted earnings per share	(4,568)	912
Number of share ('000)		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	416,000	312,000

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during two periods ended 30 June 2012 and 2011.

The weighted average number of share in issue during the period ended 30 June 2012 represents 416,000,000 shares in issue after the Listing, as of such shares had been outstanding during the entire six months ended 30 June 2012.

The weighted average number of share in issue during the period ended 30 June 2011 represents 312,000,000 shares in issue before the Listing, as of such shares had been outstanding during the entire six months ended 30 June 2011.

11. MOVEMENTS IN PLANT AND EQUIPMENT/PREPAID LEASE PAYMENT

During the six months ended 30 June 2012, the Group incurred approximately HK\$885,000 (six months ended 30 June 2011: HK\$39,688,000) on the acquisition of plant and equipment.

During the six months ended 30 June 2012, prepaid lease payment with a net carrying value of approximately HK\$14,154,000 were disposed of by the Group to an independent third party, resulting in a net gain on disposal of approximately HK\$2,017,000.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

12. TRADE AND OTHER RECEIVABLES

	30.6.2012 HK\$'000 (Unaudited)	31.12.2011 HK\$'000 (Audited)
Trade receivables	50,668	42,722
Other receivables	13,613	6,107
Prepayment	9,003	3,853
	73,284	52,682

- (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:

	30.6.2012 HK\$'000	31.12.2011 HK\$'000
0 to 45 days	46,185	38,261
46 to 90 days	3,257	3,790
91 to 365 days	1,226	671
	50,668	42,722

13. DERIVATIVE FINANCIAL INSTRUMENTS

As at 30 June 2012, the Group entered into four non-deliverable structured forward contracts (the "Forward Contracts") (As at 31 December 2011: three) denominated in US\$ and Renminbi with a bank.

The net fair value of the derivative financial instruments as at 30 June 2012 is approximately HK\$500,000 (As at 31 December 2011: HK\$700,000). The loss arising from the change in fair value of derivative financial instruments of approximately HK\$200,000 (six months ended 30 June 2011: gain on change in fair value of derivative financial instruments of approximately HK\$812,000) was recognised in profit or loss during the six months ended 30 June 2012.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

14. TRADE AND OTHER PAYABLES

	30.6.2012 HK\$'000 (Unaudited)	31.12.2011 HK\$'000 (Audited)
Trade payables	37,241	15,334
Receipt in advance	7,391	206
Other payables	15,450	15,001
Value added tax payables	1,041	1,496
	61,123	32,037

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

	30.6.2012 HK\$'000 (Unaudited)	31.12.2011 HK\$'000 (Audited)
0 to 90 days	36,788	14,111
91 to 365 days	326	1,211
Over 365 days	127	12
	37,241	15,334

The average credit period on purchase of goods is 30 days to 90 days. The Group has financial risk management policies or plans for its payables with respect to the credit timeframe.

15. AMOUNTS DUE TO DIRECTORS/A RELATED COMPANY

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

16. BANK BORROWINGS

During the six months ended 30 June 2012, the Group obtained new bank borrowings amounting to approximately HK\$24,296,000 (31 December 2011: 33,338,000). The loans carry interest at floating market rates of Hong Kong Interbank Offer Rate ("HIBOR") and London Interbank Offer Rate ("LIBOR") plus 1.125% per annum respectively (31 December 2011: ranging from 1 month Hong Kong Interbank Offer Rate ("HIBOR") plus 1.1% to 1.625% per annum). The proceeds were used to finance the produce of raw material (31 December 2011: raw material and plant and equipment).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

17. SHARE CAPITAL

The share capital as at 1 January 2011 represented the share capital of Wide Reach of US\$3,000 (equivalent to approximately HK\$23,000), and the aggregate share capital of Fornton Holdings Company Limited (the "Fornton Holding"), Fornton Knitting Company Limited ("Fornton Knitting") and Nice Regent Industries Limited (the "Nice Regent") of approximately HK\$2,000,000 held by Mr. Yam, Ms. Wong and Mr. Wong as at 1 January 2011.

On 31 December 2010, as part of the Reorganisation, Wide Reach subscribed to the allotment of new shares by the Group's subsidiary, which accounted for 99.98%, 80% and 99.9% of the then resulting issued share capital of Fornton Holdings, Fornton Knitting and Nice Regent respectively and gained control of them. The subscription of new shares was accounted for by the Group using merger method and approximately HK\$8,020,000 was recognised in other reserve.

The share capital of the Group as at 1 January 2011 represented the aggregated share capital of Wide Reach, Fornton Holdings, Fornton Knitting and Nice Regent contributed by their equity holders which are the same as the owners of the Company.

The share capital of the Group as at 31 December 2011 and 30 June 2012 represented the issued and fully paid capital of the Company.

	Number of shares '000	Share capital HK\$'000
Authorised		
Ordinary shares of HK\$0.01 each as at 13 April 2011 (Note (i))	10,000	100
Increase in the year (Note (iii))	9,990,000	99,900
Ordinary shares of HK\$0.1 each as at 31 December 2011 and 30 June 2012	10,000,000	100,000
Issued and fully paid		
Ordinary shares of HK\$0.01 each as at the date of incorporation (Note (i))	3	—
Issue in consideration for the acquisition of the issued share capital of Wide Reach (Note (ii))	9,997	100
Capitalisation issue (Note (iii))	302,000	3,020
Issue of shares upon listing of the Company's shares on the Stock Exchange (Note (iv))	104,000	1,040
Ordinary shares of HK\$0.01 each as at 31 December 2011 and 30 June 2012	416,000	4,160

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

17. SHARE CAPITAL (Continued)

Notes:

- (i) Upon incorporation, the authorised share capital of the Company was HK\$100,000 divided into 10,000,000 ordinary shares of HK\$0.01 each, of which 1,000 shares, 1,000 shares and 1,000 shares were allocated and issued nil paid to Integrated Asset Management (Asia) Limited ("IAM"), Ever Rosy Limited ("Ever Rosy") and Premier Wise Limited ("Premier Wise") respectively on 15 April 2011.
- (i) On 11 October 2011, pursuant to a sale and purchase agreement, IAM, Ever Rosy and Premier Wise transferred 3,000 shares, 3,000 shares and 3,000 shares respectively in Wide Reach, being its entire share capital, to the Company and in consideration of and in exchange for which, the Company allotted and issued 3,332,333, 3,332,334 and 3,332,333 shares, credited as fully paid, to IAM, Ever Rosy and Premier Wise respectively and the Company credited as fully paid at par the existing 3,000 nil paid shares. The acquisition of the issued share capital of Wide Reach was accounted for by the Group using merger method and approximately HK\$1,923,000 was recognised in other reserve.
- (ii) Pursuant to an ordinary resolution passed in the meeting on 11 October 2011, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 9,990,000,000 ordinary share of HK\$0.01.

Subject to the share premium account of the Company being credited as a result of the public offering of 104,000,000 ordinary shares on 28 October 2011, the directors of the Company were authorised to capitalise HK\$3,020,000 standing to the credit of the share premium account of the company by applying such sum in paying up in full at par allot and issue a total of 9,990,000,000 ordinary shares for the allotment and issue to the shareholders of the Company on the register of the members of the Company at the close of business on 11 October 2011 in proportion to their then respective existing shareholdings in the Company and the directors of the Company allotted and issued such shares as aforesaid and gave effect to the capitalisation.

- (iii) On 28 October 2011, 104,000,000 ordinary shares of HK\$0.01 each were issued at a price of HK\$0.50 per share by way of placing and public offer.

All shares issued rank pari passu in all respects with all shares then in issue.

18. COMMITMENT UNDER OPERATING LEASE

The Group leases certain of its factory premises and offices under operating lease arrangements. Lease for properties are negotiated for terms ranging from one to three years and rentals are fixed. The Group does not have an option to purchase the leased assets at the expiry of the lease period.

At the end of the reporting period, the Group had future minimum lease payments under non-cancellable operating lease which fall due as follows:

	30.6.2012	31.12.2011
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within one year	4,080	5,311
In the second to fifth years, inclusive	1,178	2,585
	5,258	7,896

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

19. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30.6.2012 HK\$'000 (Unaudited)	31.12.2011 HK\$'000 (Audited)
Contracted, but not provided for: Plant and equipment	998	296

20. RELATED PARTY TRANSACTIONS

In addition to the balances detailed in the condensed consolidated interim financial statements and note 15, 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 2011 and 2012 are as follows:

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Short-term employee benefits	2,508	2,377
Post-employment benefits	31	36
	2,539	2,413

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

20. RELATED PARTY TRANSACTIONS (Continued)

(b) Other related parties transactions

Name of company	Nature of transaction	Six month ended 30 June	
		2012 HK\$'000	2011 HK\$'000
Long Rise Investment Development Limited ("Long Rise")	Rental charged therefrom	850	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 30 March 2011, 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\$1,800,000.

21. 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 (the "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 participants.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE AND BUSINESS REVIEW

During the six months ended 30 June 2012, the Group recorded a turnover of approximately HK\$106,804,000, showing a decrease of 10.9% from approximately HK\$119,846,000 for the corresponding period in last year. Gross profit of the Group decreased by 25.3% from approximately HK\$27,340,000 for the six months ended 30 June 2011 to approximately HK\$20,432,000 for the six months ended 30 June 2012. The Group recorded a loss of approximately HK\$4,568,000 for the six months ended 30 June 2012 as compared with a profit of approximately HK\$912,000 for the corresponding period in last year. The loss of the Group for the six months ended 30 June 2012 was primarily attributable to the decreases in turnover and gross profit margin and increase in general administrative expenses 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 the USA, the ongoing upward adjustment in labour cost and general inflation in the PRC.

The Eurocrisis in the second half of 2011 dampened the market sentiment in Europe and the USA which, as a result, caused a reduction in sales order and price pressure on the Group's products which in turn resulted in decrease in the Group's turnover by approximately HK\$13.0 million. Decrease in total cost of sales by approximately HK\$6,134,000 from approximately HK\$92,506,000 for the six months ended 30 June 2011 to approximately HK\$86,372,000 for the six months ended 30 June 2012 being 6.6% decrease was primarily attributable to the combined effect of (i) significant decrease in subcontracting charges by approximately HK\$21,006,000 as a result of using computerized knitting machines since second half of 2011; (ii) increase in cost of materials by approximately HK\$7,857,000 because of overall increase in yarn prices; and (iii) increases in direct labour cost and production overhead by approximately HK\$1,713,000 and HK\$5,302,000, respectively as a result of ongoing upward adjustment on wages and general inflation in the PRC. In addition to the reduction in the Group's turnover and gross profit margin, the Group's general and administrative expenses increased by approximately HK\$2,377,000 from approximately HK\$23,470,000 for the six months ended 30 June 2011 to approximately HK\$25,847,000 for the six months ended 30 June 2012 as a result of general increases in salaries and wages and listing compliance fee. During the period under review, the Group recorded a gain on disposal of land held under Fung Ching (the "Land") amounting to HK\$2,017,000.

OUTLOOK

Looking forward, the prospect of the textile industry remains uncertain and difficult. The global economic recovery was slow and unpredictable. With the uncertain economic prospects in Europe and the USA, the Group's customers will remain cost-conscious and adopt a more conservative approach in placing orders to the Group which in turn will adversely affect the Group's sales volume and profit margin. Such unfavorable business environment combined with the rising operation cost due to increased material costs, upward adjustment on minimum wages, severe inflation and competition and ongoing appreciation of RMB will continue to affect the Group financial performance in the short run. Nevertheless, the Group will continue to focus on product quality by manufacturing novel and complicated design to attract new customers on the one hand and maintain a prudent and proactive approach to strengthen our position on the others.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL POSITION AND CAPITAL STRUCTURE

As at 30 June 2012, the Group recorded total assets of approximately HK\$267,518,000 which were financed by equity of approximately HK\$120,500,000 and liabilities of approximately HK\$147,018,000. The gearing ratio of total borrowing as a percentage of total capital and reserves attributable to Shareholders was 70.3% as at 30 June 2012 and 30.7% as at 31 December 2011. The Group had cash and bank balances of approximately HK\$40,984,000. Deposit amounting to HK\$3,000,000 has been 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 reduced from 1.86 times as at 31 December 2011 to 1.50 times as at 30 June 2012. The Group's operation was mainly financed by funds generated from its operation and borrowings. As at 30 June 2012, 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 Directors 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 2012, 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 1.1% 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 2012, the Group invested approximately HK\$885,000 (six months ended 30 June 2011: approximately HK\$39,688,000) on acquisition of plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

CHARGES ON ASSETS

As at 30 June 2012, deposit amounting to HK\$3,000,000 has been pledged to secure bank overdrafts, short-term bank loans and unused banking facilities.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2012, the Group has workforce of approximately 1,300 persons including three executive directors 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 2012, no share options were granted by the Company since the adoption of the Scheme.

SIGNIFICANT INVESTMENT HELD

Except for investment in subsidiaries, during the six months ended 30 June 2012 and as at the end of the reporting period, the Group did not hold any significant investment in equity interest in any company.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 June 2012, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the section headed "Use of Proceeds" in the annual report of the Company issued on 27 April 2012, the Group did not have other plans for material investments and capital assets.

MATERIAL DISPOSAL OF PREPAID LEASE PAYMENT

On 2 March 2012, pursuant to the requisition by the local authorities, Fung Chung entered into a land acquisition agreement (the "Land Acquisition Agreement") with Dongguan City Dalang Town Land Reserve Acquisition Office ("Dalang Land Office") whereby Fung Ching agreed to sell the Land to the Dalang Land Office at a consideration of RMB15,500,000 (equivalent to approximately HK\$19,100,000) (the "Disposal") due to the town development plan of Dalang Town. A gain of approximately HK\$2,017,000 recognised from the Disposal. It is intended that the net proceeds of approximately HK\$16,171,000 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. Having considered (i) the Land was sold pursuant to the requisition by the relevant authorities; (ii) it was expected that there would not be any material adverse impact on the business operation of the Group; and (iii) a gain recognised from the Disposal, the Board considered that the entering into of the Land Acquisition Agreement was 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.

OTHER DISCLOSURES

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2012 (2011: Nil).

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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2012, the interests and/or short positions of directors in the share, the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

The Company:

Name of director	Capacity and nature of interest	Number of Shares held (Note 1)	Percentage of the Company's issued share capital
Mr. Yam Tak Cheung	Interest of controlled corporation (Note 2)	104,000,000 (L)	25.00
	Interest of spouse (Note 3)	104,000,000 (L)	25.00
Ms. Wong Kan Kan, Kandy	Interest of controlled corporation (Note 4)	104,000,000 (L)	25.00
	Interest of spouse (Note 5)	104,000,000 (L)	25.00
Mr. Wong Tat Wai, Derek	Interest of controlled corporation (Note 6)	104,000,000 (L)	25.00

Notes:

1. The letter "L" denotes a long position in the directors' interest in the share capital of the Company.
2. Mr. Yam Tak Cheung is the beneficial owner of 100% of the issued share capital of Integrated Asset Management (Asia) Limited and is deemed to be interested in the 104,000,000 Shares held by Integrated Asset Management (Asia) Limited under the SFO.
3. Mr. Yam Tak Cheung is the spouse of Ms. Wong Kan Kan, Kandy and is deemed to be interested in the Shares held by Ever Rosy Limited.
4. Ms. Wong Kan Kan, Kandy is the beneficial owner of 100% of the issued share capital of Ever Rosy Limited and is deemed to be interested in the 104,000,000 Shares held by Ever Rosy Limited under the SFO.

OTHER DISCLOSURES (CONTINUED)

- Ms. Wong Kan Kan, Kandy is the spouse of Mr. Yam Tak Cheung and is deemed to be interested in the Shares held by Integrated Asset Management (Asia) Limited.
- Mr. Wong Tat Wai, Derek is the beneficial owner of 100% of the issued share capital of Premier Wise Limited and is deemed to be interested in the 104,000,000 Shares held by Premier Wise Limited under the SFO.

Save as disclosed above, as at 30 June 2012, to the best knowledge of the directors, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2012, the interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long position:

Name of shareholders	Capacity and nature of interest	Number of ordinary shares held (Note 1)	Percentage of the Company's issued share capital
Integrated Asset Management (Asia) Limited (Note 2)	Beneficial interest	104,000,000 (L)	25.00
Ever Rosy Limited (Note 3)	Beneficial interest	104,000,000 (L)	25.00
Premier Wise Limited (Note 4)	Beneficial interest	104,000,000 (L)	25.00

Notes:

- The letter "L" denotes a long position in the shareholder's interest in the share capital of the Company.
- Mr. Yam Tak Cheung is the beneficial owner of 100% of the issued share capital of Integrated Asset Management (Asia) Limited and is deemed to be interested in the 104,000,000 shares held by Integrated Asset Management (Asia) Limited under the SFO.
- Ms. Wong Kan Kan, Kandy is the beneficial owner of 100% of the issued share capital of Ever Rosy Limited and is deemed to be interested in the 104,000,000 shares held by Ever Rosy Limited under the SFO.
- Mr. Wong Tat Wai, Derek is the beneficial owner of 100% of the issued share capital of Integrated Premier Wise Limited and is deemed to be interested in the 104,000,000 shares held by Premier Wise Limited under the SFO.

Save as disclosed above, as at 30 June 2012, no person, other than a Director, whose interests are set out under "Directors' interests and short positions in shares and underlying shares" section above, had registered an interest or short position in the shares, underlying shares or debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

OTHER DISCLOSURES (CONTINUED)

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had complied throughout the six months ended 30 June 2012 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 2012.

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 2012 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 2012. The interim results of the Group for the six months ended 30 June 2012 are unaudited but certain agree-upon procedures have been performed by the external auditors of the Company in accordance with Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-upon Procedures Regarding Financial Information” issued by the HKICPA. The agreed-upon procedures performed by the external auditors did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, the external auditors accordingly do not express any assurance on the interim results of the Company. The findings on the aforementioned agreed-upon procedures have been taken into consideration by the Committee in its review of the interim results of the Group for the six months ended 30 June 2012, which have been approved by the Board on 27 August 2012 prior to its issuance.

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

Hong Kong, 27 August 2012