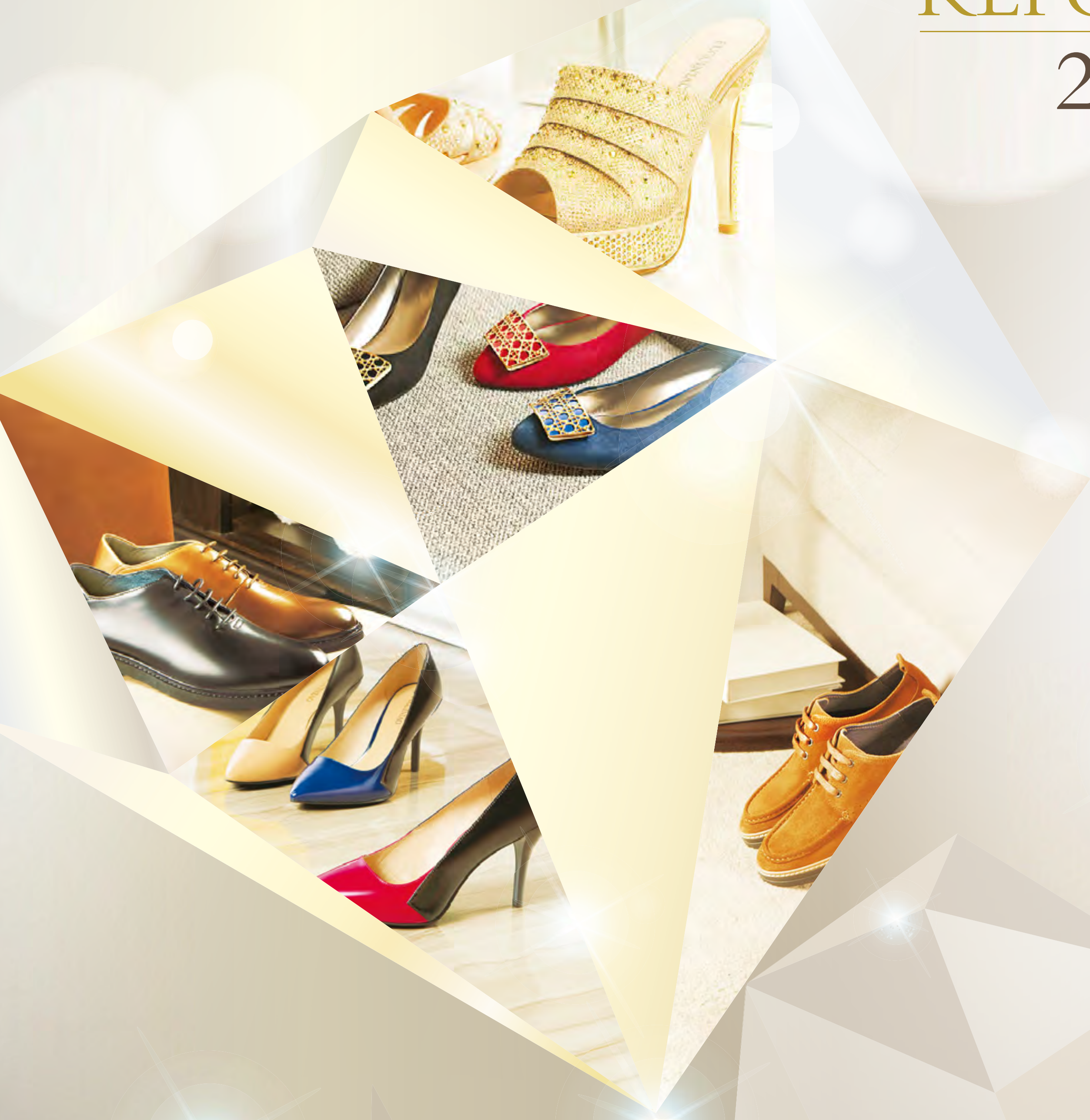
富貴鳥股份有限公司

FUGUINIAO CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 01819

INTERIM REPORT 2014

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Lam Wo Ping *(Chairman)*
Mr. Lam Wing Ho
Mr. Hong Huihuang

Non-executive Directors

Mr. Lam Wo Sze
Mr. Lam Kwok Keung
Mr. Zhai Gang

Independent non-executive Directors

Mr. Wang Zhiqiang
Ms. Long Xiaoning
Mr. Li Yuzhong
Ms. Chan Wah Man, Carman

SUPERVISORS

Mr. Zhang Haimu *(Chairman)*
Mr. Zhou Xinyu
Ms. Wang Xinhui

AUDIT COMMITTEE

Mr. Wang Zhiqiang *(Chairman)*
Ms. Long Xiaoning
Mr. Lam Wo Sze

REMUNERATION COMMITTEE

Ms. Chan Wah Man, Carman *(Chairlady)*
Mr. Li Yuzhong
Mr. Lam Wo Ping

NOMINATION COMMITTEE

Mr. Lam Wo Ping *(Chairman)*
Ms. Long Xiaoning
Mr. Li Yuzhong

STRATEGY COMMITTEE

Mr. Lam Wo Ping *(Chairman)*
Mr. Zhai Gang
Mr. Li Yuzhong

COMPANY SECRETARY

Mr. Liu Guodong *(HKICPA)*

AUTHORISED REPRESENTATIVES

Mr. Lam Wo Ping
Mr. Liu Guodong

REGISTERED OFFICE

Fuguiniao Industrial Park
East Section, Baqi Road
Shishi City
Fujian Province
The PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Fuguiniao Industrial Park
East Section, Baqi Road
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Fujian Province
The PRC

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AUDITORS

KPMG
Certified Public Accountants

LEGAL ADVISOR AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

LEGAL ADVISOR AS TO PRC LAW

Jingtian & Gongcheng

COMPLIANCE ADVISER

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H SHARE REGISTRAR

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The PRC

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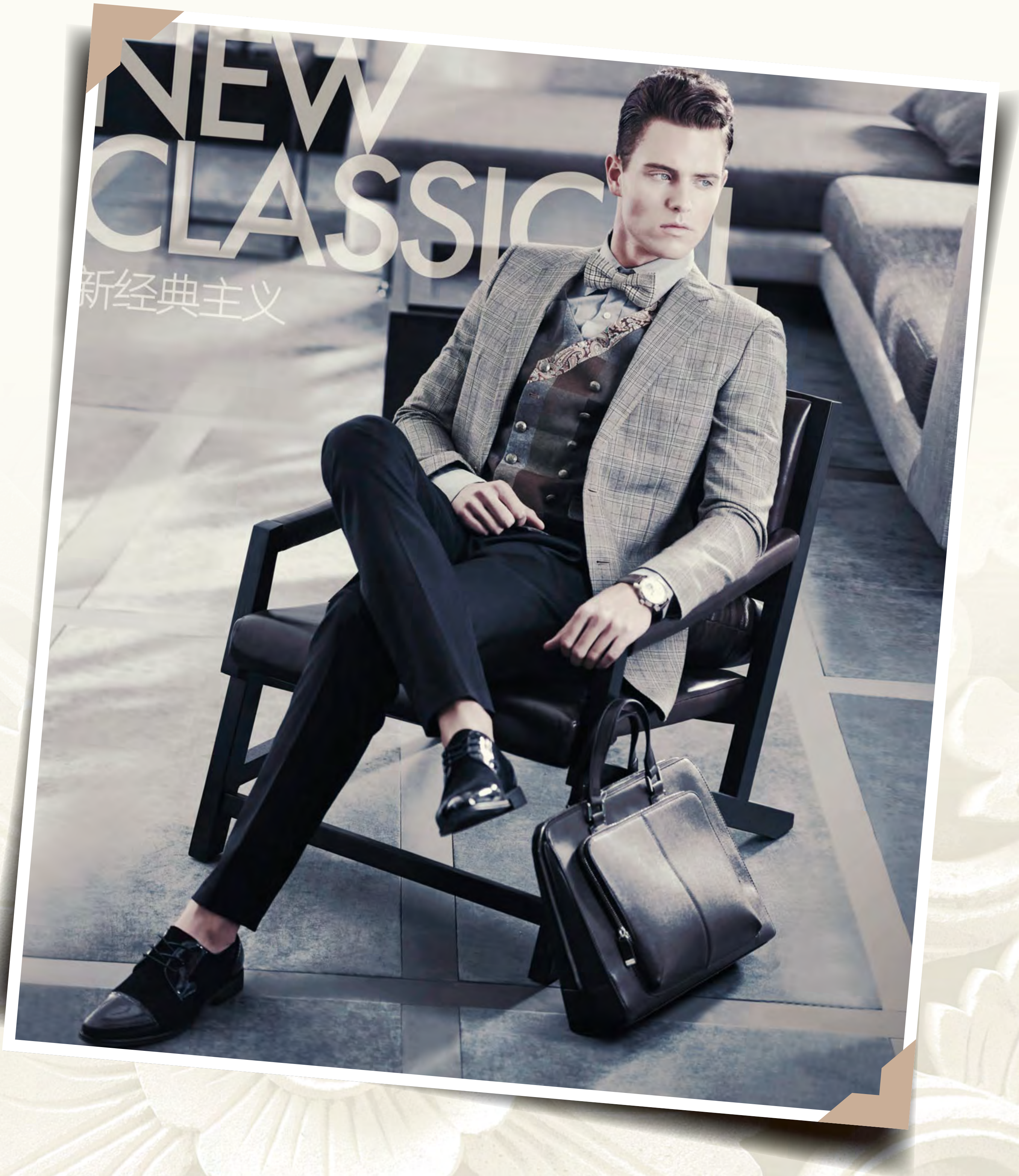
Shishi City
Fujian Province
The PRC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FINANCIAL SUMMARY

	Six months ended 30 June		
	2014 RMB'000	2013 RMB'000	Increase/ (decrease) %
Financial highlights			
Turnover	**1,135,735**	1,084,406	4.7%
Gross profit	**453,059**	418,198	8.3%
Profit before taxation	**300,186**	281,530	6.6%
Earnings before interest, tax, depreciation and amortization (EBITDA)	**317,249**	303,461	4.5%
Profit for the period	**224,957**	209,000	7.6%
Basic earnings per share (RMB)	**0.42**	0.52	(19.2%)
Financial Ratios			
Gross profit margin	**39.9%**	38.6%	1.3%
EBITDA margin	**27.9%**	28.0%	(0.1%)
Net profit margin	**19.8%**	19.3%	0.5%

	As at 30 June 2014	As at 31 December 2013	As at 30 June 2013
Return on equity [1]	**11.0%**	22.9%	25.8%
Return on total assets [2]	**8.0%**	16.2%	12.8%
Current ratio [3]	**350.4%**	325.4%	160.2%
Gearing ratio [4]	**18.12%**	21.5%	56.6%
Net debt to equity ratio [5]	**2.86%**	Net cash	28.3%
Interest coverage [6]	**32.6**	26.2	27.5

Notes:

(1) Return on equity ratio is calculated by dividing profit and total comprehensive income for the year/period by total equity at the end of the year/period and multiplying by 100%.

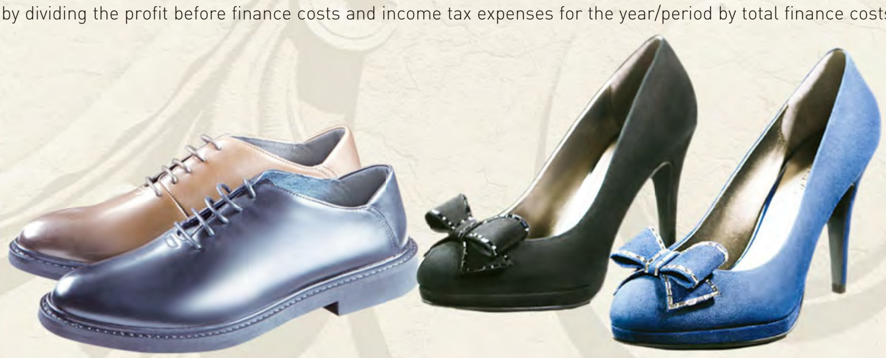
(2) Return on total assets ratio is calculated by dividing profit and total comprehensive income for the year/period by total assets at the end of the year/period and multiplying by 100%.

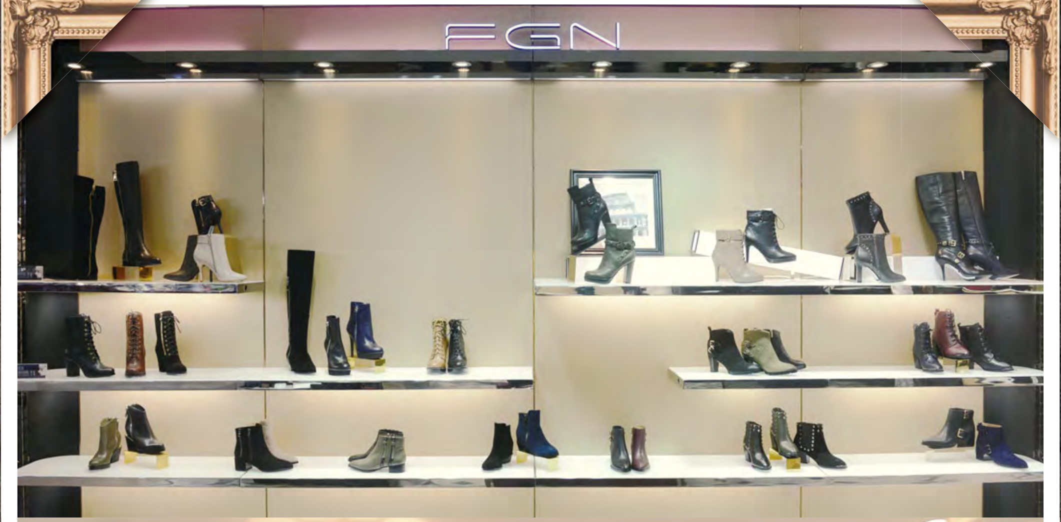
(3) Current ratio is calculated by dividing total current assets at the end of the year/period by total current liabilities at the end of the year/period and multiplying by 100%.

(4) Gearing ratio is calculated by dividing the total bank loans and other borrowings at the end of the year/period by total equity at the end of the year/period and multiplying by 100%.

(5) Net debt to equity ratio is calculated by dividing total bank loans and other borrowings net of cash and cash equivalents at the end of the year/period by total equity at the end of the year/period and multiplying by 100%.

(6) Interest coverage is calculated by dividing the profit before finance costs and income tax expenses for the year/period by total finance costs for the year/period.

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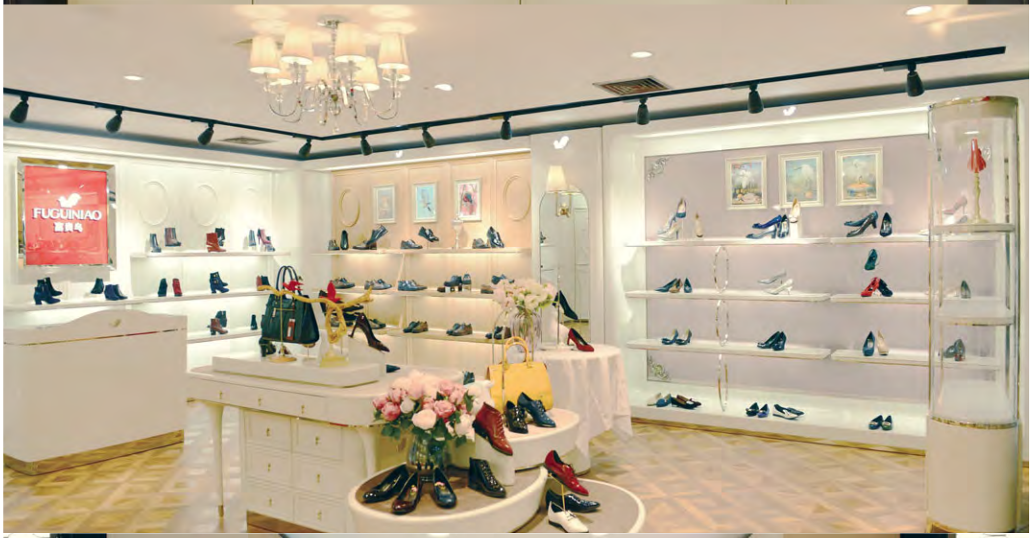
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MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

During the first half of 2014, affected by sluggish overseas demand, overcapacity and economic restructuring, Chinese economy faced certain downward pressure amidst the weak recovery of the global economy. With the introduction of a series of "steady growth" policies, the economic conditions have improved since the second quarter. In particular, China's GDP grew by 7.4% year-on-year during the first half of 2014. The GDP growth in the second quarter picked up 0.1 percentage point from the first quarter.

The consumption market in China performed steadily during the first half of the year. China's total retail sales of consumer goods rose by 12.1% year-on-year, with the growth rate of the second quarter 0.1 percentage point higher than that of the first quarter. Consumption is increasing its percentage in China's national economy, with the consumption expenses contributing to 52.4% of GDP in the first half of 2014, 0.2 percentage points higher than the same period last year. The income gap between urban and rural households was further narrowed, with real growth of per capita cash income of rural households being 2.7 percentage points faster than the per capita disposable income of urban households during the first half of the year.

Affected by the sluggish macro-economy and the transitional stage of the industry, the footwear and apparel industry generally performed badly during the first half of 2014. E-commerce is gradually transforming the footwear and apparel industry by changing the business model of outward expansion and market occupation. Instead, the emergence of O2O (Online to Offline) and brand factory stores has become a new development trend in the industry. With e-commerce, both online and offline channels have become more transparent and effective, thus attracting more consumers to focus back on the characteristics, design and cost-performance ratio of the footwear and apparel products.

Our Group is confident in the growth of the footwear and apparel industry in view of the followings: (1) the PRC government's macroeconomic policy on economic restructuring will benefit the consumer goods industry in the long run, and the improvement of the resident consumption level in China will trigger a new round of consumption upgrading; and (2) urbanisation and rise of income level of the rural households in China will drive consumption demand from the rural households, which have a large population base. The Fuguiniao brand has a long-standing position and high reputation in the first, second and third-tier cities in China. With the full production line introduced from Italy and our leather footwear products made of genuine leather, the Company will be able to ride on this consumption upgrading trend by presenting outstanding cost-performance ratio and offering comfortable wearing experience to consumers.

BUSINESS REVIEW

We conduct our business under two main models: a branded product business model, under which we sell products under our own brands, and an OEM/ODM business model, under which we manufacture footwear products for third-party brands. Our products include men's and women's footwear and business casual menswear products sold under our Fuguiniao, FGN and AnyWalk brands, as well as leather accessories sold under our Fuguiniao brand.

Sales and distribution network

We sell our branded products through our network of distributors and certain direct sales channels, including direct large-scale institutional purchases and online sales. We primarily sell our branded products on a wholesale basis to our distributors, who then sell them to end customers through retail outlets they operate or which are operated by third-party retailers with whom they contract. We also sell our products directly to end customers through proprietary outlets we operate.

The Group had adopted certain strategies in the first half of 2014 to improve our distribution channels. The strategies included increasing the efficiency of the existing stores and closing down those less profitable stores. At the same time, the Group continued to manage our retail price to cope with our brand position.

We distribute our branded products through an extensive nationwide retail network consisting of 3,245 retail outlets across 31 provinces, autonomous regions and municipalities in the PRC as at 30 June 2014. The following table sets forth the number of distributors and retail outlets operated by us, our distributors and third-party retailers by region in the PRC as at 31 December 2013 and 30 June 2014:

	As at 30 June 2014		As at 31 December 2013	
	No. of retail outlets[1]	**No. of distributors[2]**	No. of retail outlets[1]	No. of distributors[2]
PRC regions				
Northeastern PRC	**391**	**7**	392	7
Northern PRC	**678**	**12**	705	11
Eastern PRC	**791**	**18**	874	17
Central Southern PRC	**647**	**12**	649	12
Northwestern PRC	**288**	**5**	286	5
Southwestern PRC	**450**	**8**	453	8
Total	**3,245**	**62**	3,359	60

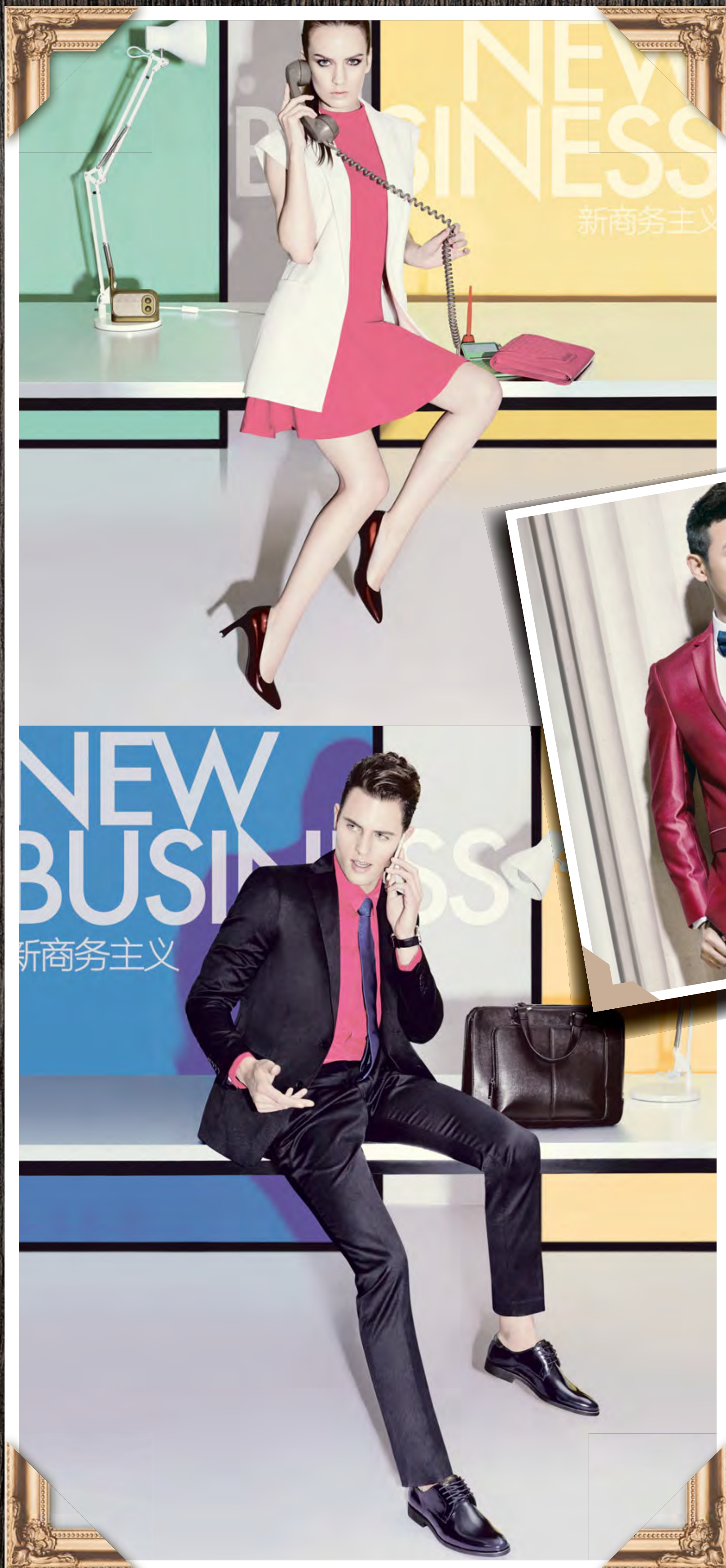
Notes:
(1) The number of retail outlets refers to retail outlets operated by us directly and by our distributors and third-party retailers.

(2) The number of distributors are categorised in accordance with their locations.

Among the 3,245 (31 December 2013: 3,359) retail outlets as at 30 June 2014, 1,351 (31 December 2013: 1,334) retail outlets were owned and operated by our distributors, 1,641 (31 December 2013: 1,763) retail outlets were owned and operated by third-party retailers and the remaining 253 (31 December 2013: 262) outlets were operated directly by us. In addition, as at 30 June 2014, of our 3,245 (31 December 2013: 3,359) retail outlets, 2,173 (31 December 2013: 2,235) were department store outlets and the remaining were stand-alone stores.

The following table sets forth the number of retail outlets operated by us, our distributors and third-party retailers by sales channel as of 31 December 2013 and 30 June 2014:

	As at 30 June 2014	As at 31 December 2013
Sale Channels		
Retail outlets operated by our distributors and third-party retailers	**2,992**	3,097
Proprietary retail outlets	**253**	262
Total	**3,245**	3,359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Below is a summary of the changes in the number of retail outlets during the period of six months ended 30 June 2014:

	As at 31 December 2013	Opened	Closed	As at 30 June 2014
Retail outlets operated by our distributors and third-party retailers	3,097	197	302	**2,992**
Proprietary retail outlets	262	8	17	**253**
Total	3,359	205	319	**3,245**

After a period of rapid expansion of our distribution network since 2011 when we began selling our business casual mens wear products, we have taken a more strategic and conservative approach in expanding our retail network in the first half of 2014 in line with our business growth and to ensure the success of newly opened retail stores.

Retail network and inventory management

We require all of the retail outlets operated by our distributors and third-party retailers to exclusively sell our products. In order to provide uniform, quality services across our retail network, we set out in our operations manual uniform standards for, among other things, store decoration and displays, marketing activities and daily operations for our distributors and third-party retailers, and we require our distributors and their third-party retailers to obtain our approval for the final location of each retail outlet.

To further implement our retail policies, we conduct random on-site inspections at individual retail outlets to ensure that the decorations, displays and retail prices in each retail outlet comply with our requirements. Through these inspections and visits, we seek to ensure that the terms and conditions of the distributorship agreements are being complied with throughout our distribution network. We identify and inform distributors of any non-conforming individual retail outlets and require them to rectify the problems within a certain period of time. We also require our distributors to conduct regular site visits to the retail outlets operated by third-party retailers they have authorised to check whether our operating standards are being followed. We believe this system of uniform operating standards and periodic checks and visits helps us to ensure all retail outlets are efficiently operated and create a pleasant shopping experience to our retail customers. We are not aware of any breach of our retail policies by the retail outlets operated by our distributors and third-party retailers in the first half of 2014.

We also recognise that controlling inventory levels is important to our overall profitability. Sales orders from our trade fairs enable us to manage our inventory of raw materials and finished products more efficiently. For this reason, we typically have low inventory levels of unused raw materials and unsold or obsolete finished products at the end of the year. For the six months ended 30 June 2014, our average inventory turnover days were 63.6 days (2013: 62.8 days).

To facilitate our distributors in managing their inventory levels, we launched an in-house developed online trading platform, whereby our distributors may, exchange with each other certain of our products in their inventories that may be considered out-of-season or less popular within their respective authorised regions of operation. Prior to launching this trading platform, we conducted a thorough review of the system to minimize any potential legal risks, including, among others, intellectual property infringement and personal data security. We have launched and operated this online trading platform since December 2013.

Product design and development

We have strong in-house research, design and development capabilities that have been critical to our success. For each of our brands, Fuguiniao, FGN and AnyWalk, we have a separate research, design and development team. We further subdivide our Fuguiniao design and development team into Fuguiniao men's footwear and women's footwear teams. We also have a menswear design and development team responsible for the overall product planning and design for our business casual menswear products. Each of our footwear design teams consists of one design director, one to two chief designers, three to ten senior designers, assistant designers and other staff and is responsible for creating designs for a wide variety of products for their particular market segment based on domestic and international fashion trends, distinctive features of the brand and market demand. As at 30 June 2014, our research, design and development team comprised 276 members, including five design directors, six chief designers and several senior designers, who possessed an approximate average of 15 years of design experience in the footwear industry. In addition, our accessories design team and our menswear design team each comprises one chief designer.

We conduct detailed product research involving the collection of market and fashion information to create a wide variety of products that are consistent with the contemporary international fashion trends and cater to the preferences of our target consumer groups in China. Members of our design and development team regularly attend domestic and overseas trade and fashion shows to obtain latest trends and market developments in terms of design, material usage and color schemes. To better understand consumer preferences, our distributors and their third-party retailers periodically provide us customer feedback information.

Based on our detailed research on fashion trends, domestic consumer preferences and certain other relevant information, our footwear designers and brand design directors typically determine applicable seasonal themes with respect to the styles, colors, materials and other features of footwear products to be developed. After the seasonal themes have been determined, our design team commences the design of the collections by preparing drawings and sketches of a particular style and shoe last. The first batch of shoe plates would be created based on these drawings and sketches. Plates that passed our preliminary selection process are matched with suitable colors and made into prototypes. Our technical team then analyses and approves the technologies used in making the prototypes before they are submitted to the prototype selection meetings. In a prototype selection meeting, we consider a number of factors, including adherence to our initial design concepts and suitability for mass production before the prototypes can be displayed at our trade fairs. We would also invite several representatives from our distributors to participate in our design processes to preview and evaluate the molds, styles and colors of our new footwear products. We are thus able to draw upon their market sensitivity and local knowledge in making products that cater to the varying tastes of our end customers.

With respect to design and development of our menswear products, we maintain a design and development process for our jacket products and outsource the design and development of our other menswear products, such as pants and sweaters. We also design and make our own ODM product prototypes in accordance with our ODM customers' requirements.

We believe by leveraging our in-depth knowledge of the market and fashion trends and the preferences of our target consumer groups in China, we are able to transform our designs into commercially viable, high-quality and widely accepted products. We believe our strong research and development capabilities enable us to maintain our brand image, expand our product portfolio and strengthen our competitiveness in the PRC footwear and menswear industries. As at 30 June 2014, we had the capacity to introduce over 1,500 SKUs (31 December 2013: 1,500 SKUs) into the market for our branded footwear products and approximately 300 SKUs (31 December 2013: 300 SKUs) for our business casual menswear products for each season.

Production

We have three production facilities strategically located in Shishi City, Fujian Province, China, which have easy access to sea ports, airports and expressways. As at 30 June 2014, we had a combined annual production capacity of approximately 5.8 million (31 December 2013: 5.8 million) pairs of footwear (calculated on the basis that our production facilities operate for eight hours per day and 300 days per year).

Marketing and promotion

During the first half of 2014, we continued to engage in, among others, advertising campaigns, fashion shows and department store promotional events to increase our brand awareness. Our national advertising primarily focuses on promoting our brand image and generating consumer attention through national television advertising and advertisements in fashion magazines and newspapers. We continued to engage Mr. Lu Yi, a well-known actor in the PRC, to be the ambassador of our business casual menswear products. He has appeared in TV and print commercials and has participated in our fashion shows and promotional events.

We continue to hold fashion shows in our trade fairs in the first half of 2014 through which we display advertising videos to promote our brands and to present our newly-released footwear and menswear collections. In addition, we organize product theme promotions in department stores where a majority of our retail outlets are located. We set display boards in our retail outlets showcasing newly-arrived products to allow end customers to be familiarized with our products and styles. We generally invite singers, actors and other PRC celebrities to participate in these promotional events.

Trade fairs

We hold national trade fairs in March, May, September and October each year for the autumn, winter, spring and summer collections of our Fuguiniao and FGN branded footwear and Fuguiniao branded leather accessories, and in April and September each year for the autumn/winter and spring/summer collections of our AnyWalk branded footwear and Fuguiniao branded menswear, such trade fairs are attended by our existing or potential distributors, as well as for certain third-party retailers and retail store managers. Our distributors can place orders with us directly and third-party retailers and retail store manager can place orders through our distributors.

FINANCIAL REVIEW

Turnover

Our turnover for the six months ended 30 June 2014 amounted to RMB1,135.7 million, representing an increase of 4.7% as compared to RMB1,084.4 million for the six months ended 30 June 2013. This increase was primarily a result of the increase in the sales of our footwear and menswear products.

The table below sets forth our turnover by product type for the periods indicated:

	Six months ended 30 June			
	2014		2013	
	RMB'000	**%**	RMB'000	%
Product Type				
Footwear	**902,862**	**79.5**	875,021	80.7
Men's footwear	**328,296**	**28.9**	301,794	27.8
Women's footwear	**574,566**	**50.6**	573,227	52.9
Menswear	**225,093**	**19.8**	206,859	19.1
Leather accessories	**7,780**	**0.7**	2,526	0.2
Total	**1,135,735**	**100.0**	1,084,406	100.0

Turnover from the sales of our footwear products increased by RMB27.9 million, or 3.2%, from RMB875.0 million for the six months ended 30 June 2013 to RMB902.9 million for the six months ended 30 June 2014. This increase consisted of increase of RMB26.5 million in the turnover from the sales of men's footwear and RMB1.3 million in the turnover from the sales of women's footwear, and was primarily due to (i) an increase in the turnover generated from our proprietary retail outlets; (ii) an increase in the turnover from our online sales; and (iii) an increase in average sales prices of our footwear products in response to the increase in footwear sales price in the PRC. Moreover, our Group launched its new products under the theme of "New Classical Style", "New Business Style" and "New Comfortable Style" in the first half of 2014, and the design of these products can cope with the new living style of our customers. For the six months ended 30 June 2014, the sales volume of our footwear products was 4.2 million pairs, a decrease of 4.5% from 4.4 million pairs for the six months ended 30 June 2013. The average sales price also increased from RMB199.19 per pair to RMB217.40 per pair. This was primarily a result of the increase in suggested price ranges we provided to our distributors of our footwear products and stronger bargaining power reflecting our improving brand recognition, which allowed us to raise the prices of the products we sold to our distributors and to our end customers through our proprietary retail outlets.

Turnover from the sales of our menswear products increased by RMB18.2 million, or 8.8%, from RMB206.9 million for the six months ended 30 June 2013 to RMB225.1 million for the six months ended 30 June 2014. This increase was primarily due to the increase in turnover from distributors. The sales volume of our menswear products was 1.6 million units for the six months ended 30 June 2014, an increase of 6.7% from 1.5 million units for the six months ended 30 June 2013. The average sales price also increased from RMB135.73 per unit to RMB140.95 per unit. This was primarily a result of increase in suggested price ranges we provided to our distributors of our menswear products and stronger bargaining power reflecting our improving brand recognition.

Turnover from the sales of leather accessories increased by RMB5.3 million, or 212.0%, from RMB2.5 million for the six months ended 30 June 2013 to RMB7.8 million for the six months ended 30 June 2014, primarily as a result of higher demand from our distributors. The sales volume of leather accessories was approximately 47,000 units for the six months ended 30 June 2014, an increase of 80.8% from approximately 26,000 units for the six months ended 30 June 2013. The average sales price also increased from RMB97.15 per unit to RMB165.53 per unit. This was primarily a result of the change in our product mix, which included more large leather accessories, such as leather luggage, briefcases and handbags, rather than smaller leather accessories, such as leather wallets and belts.

The following table sets forth the number of units sold and the average sales price for each of our product type for the periods indicated:

	Six months ended 30 June					
	2014			2013		
	Turnover RMB'000	**Units Sold '000**	**Avg. Sales Price RMB**	Turnover RMB'000	Units Sold '000	Avg. Sales Price RMB
Product Type						
Footwear	**902,862**	**4,153**	**217.40**	875,021	4,393	199.19
Menswear	**225,093**	**1,597**	**140.95**	206,859	1,524	135.73
Leather accessories	**7,780**	**47**	**165.53**	2,526	26	97.15
Total	**1,135,735**			1,084,406		

In addition, turnover from the sales of our Fuguiniao branded products increased by RMB63.7 million, or 7.7%, from RMB830.2 million for the six months ended 30 June 2013 to RMB893.9 million for the six months ended 30 June 2014. This increase was primarily due to an increase in average sales price by 9.1%, partially offset by a decrease in the sales volume of our footwear products by 5.5%.

Turnover from the sales of our FGN products decreased by RMB38.6 million, or 53.5%, from RMB72.1 million for the six months ended 30 June 2013 to RMB33.5 million for the six months ended 30 June 2014, primarily due to a decrease in sales volume, partially offset by an increase in average sales price. Turnover from the sales of our AnyWalk products increased from RMB17.3 million for the six months ended 30 June 2013 to RMB28.1 million for the six months ended 30 June 2014, primarily due to an increase in sales volume, partially offset by a decrease in average sales price.

Turnover from the sales of our OEM/ODM products increased by RMB15.6 million, or 9.5%, from RMB164.7 million for the six months ended 30 June 2013 to RMB180.3 million for the six months ended 30 June 2014, mainly because we received more orders from OEM/ODM customers from overseas.

The table below sets forth a breakdown of our turnover by brands and our OEM/ODM sales for the periods indicated:

	Six months ended 30 June			
	2014		2013	
	RMB'000	**%**	RMB'000	%
Brands				
Fuguiniao	**893,863**	**78.7**	830,182	76.5
FGN	**33,465**	**2.9**	72,143	6.7
AnyWalk	**28,092**	**2.5**	17,346	1.6
OEM/ODM	**180,315**	**15.9**	164,735	15.2
Total	**1,135,735**	**100.0**	1,084,406	100.0

As a result of an decrease in the order from our distributors and an increase in the average sales price of our products, turnover from our distributors decreased slightly by RMB4.0 million, or 0.5%, from RMB770.1 million for the six months ended 30 June 2013 to RMB766.1 million for the six months ended 30 June 2014. Turnover from our proprietary outlets increased by RMB12.2 million, or 10.6%, from RMB115.4 million for the six months ended 30 June 2013 to RMB127.6 million for the six months ended 30 June 2014. This increase was primarily due to an increase in the number of proprietary outlets opened in our retail network. As we expanded sales of our products to large institutional customers and through online platforms, turnover from large-scale institutional purchases and online sales increased from RMB9.8 million and RMB24.4 million, respectively, for the six months ended 30 June 2013, to RMB18.1 million and RMB43.7 million, respectively, for the six months ended 30 June 2014.

The following table sets forth the breakdown of our turnover from the sales of our branded products and OEM/ODM products by sales channel during the periods indicated:

	Six months ended 30 June			
	2014		2013	
	RMB'000	**%**	RMB'000	%
Channel				
Distributors	**766,102**	**67.5**	770,115	71.0
Proprietary outlets	**127,552**	**11.2**	115,369	10.6
Large-scale institutional purchases	**18,096**	**1.6**	9,826	0.9
Online sales	**43,670**	**3.8**	24,361	2.3
OEM/ODM customers	**180,315**	**15.9**	164,735	15.2
Total	**1,135,735**	**100.0**	1,084,406	100.0

Cost of sales and gross profit margin

For the six months ended 30 June 2014, cost of sales amounted to RMB682.7 million, an increase of RMB16.5 million, or 2.5%, from RMB666.2 million for the six months ended 30 June 2013. The increase in our total cost of sales was mainly due to the increase in the cost of raw materials of our products.

	Six months ended 30 June			
	2014		2013	
	RMB'000	**%**	RMB'000	%
Raw materials	**296,191**	**76.6**	263,490	75.9
Direct labor	**54,175**	**14.0**	52,023	15.0
Production overhead	**36,491**	**9.4**	31,788	9.1
Cost of sales for in-house production	**386,857**	**100.0**	347,301	100.0
Cost of sales for in-house production	**386,857**	**56.7**	347,301	52.1
Subcontracting charges	**295,819**	**43.3**	318,907	47.9
Total cost of sales	**682,676**	**100.0**	666,208	100.0

Gross profit margin was 39.9% for the six months ended 30 June 2014 compared to 38.6% for the six months ended 30 June 2013. This increase was primarily because we had a higher percentage of our sales from our proprietary outlets, which had relatively higher gross profit margin.

Other revenue and other net income

Other revenue and other net income primarily consisted of interest income from bank deposits, government grants, offset by net foreign exchange loss. The increase from RMB8.6 million for the six months ended 30 June 2013 to RMB12.0 million for the six months ended 30 June 2014 was mainly due to the increase in interest income and government grants.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB17.2 million, or 23.3%, from RMB73.8 million for the six months ended 30 June 2013 to RMB91.0 million for the six months ended 30 June 2014, accounting for 8.0% of our total turnover. The increase was primarily due to an increase in salaries and benefits of our sales and marketing personnel and advertising and promotion expenses.

Administrative and other operating expenses

Our administrative and other operating expenses increased by RMB3.6 million, or 5.9%, from RMB60.8 million for the six months ended 30 June 2013 to RMB64.4 million for the six months ended 30 June 2014, accounting for 5.7% of our total turnover. The increase was mainly due to the increase in the professional fee after listed on the Main Board of The Stock Exchange of Hong Kong Limited in December 2013.

Finance costs

Our finance costs decreased by RMB1.1 million, or 10.4%, from RMB10.6 million for the six months ended 30 June 2013 to RMB9.5 million for the six months ended 30 June 2014. The decrease was primarily due to a decrease in interest on bank loans and other borrowings as a result of a decrease in outstanding bank loans and other borrowings during the six months ended 30 June 2014.

Income tax

Our income tax increased by RMB2.7 million, or 3.7%, from RMB72.5 million for the six months ended 30 June 2013 to RMB75.2 million for the six months ended 30 June 2014. Our income tax expenses increased primarily because of an increase in our profit before taxation. Our effective income tax rate decreased slightly from 25.8% for the six months ended 30 June 2013 to 25.1% for the six months ended 30 June 2014.

Profit for the period

Profit for the six months ended 30 June 2014 increased by 7.6%, or RMB16.0 million, from RMB209.0 million for the six months ended 30 June 2013 to RMB225.0 million.

Liquidity, financial resources and capital structure

As at 30 June 2014, we had net current asset of RMB1,923.1 million, which increased from RMB1,811.1 million as at 31 December 2013. This increase was primarily due to increase in net cash inflow from operating activities.

As at 30 June 2014, the Group had total bank loans of approximately RMB371.0 million (as at 31 December 2013: approximately RMB417.8 million). The gearing ratio (i.e. total bank loans/total equity) was approximately 18.1% (as at 31 December 2013: approximately 21.5%).

Our liquidity position remains strong in the first half of 2014 and we have sufficient cash and available banking facilities to meet our working capital requirements and commitments. This strong cash position also allows us to expand our retail network in accordance with our expansion plan and increase business development opportunities across China.

WORKING CAPITAL MANAGEMENT

Average inventory turnover days were 63.6 days for the six months ended 30 June 2014, as compared to 62.8 days for the year ended 31 December 2013. The increase of average inventory turnover days in the first half of 2014 was mainly attributable to having more raw material needed to meet the demand of our future operation.

Average turnover days of our trade and bills receivables were 104.7 days for the six months ended 30 June 2014, as compared to 83.8 days for the year ended 31 December 2013. The increase of average turnover of days of trade and bills receivables for the first half of 2014 was mainly attributable to the increased amount of credit limit we granted to our distributors in the first half of 2014, by taking into account of factors such as their credit record, purchase volume, capital needs for expansion of retail network and local market conditions.

Average turnover days of our trade and bills payables were 48.5 days for the six months ended 30 June 2014, as compared to 48.7 days for the year ended 31 December 2013. We kept to more effectively utilise the credit period offered by our suppliers.

We regularly and actively monitors our capital structure to ensure sufficient working capital, we need to operate our business and to maintain a balanced capital structure between providing steady returns to our shareholders and benefits to our other stakeholders and having adequate level of borrowing and security.

LIQUIDITY AND FINANCIAL RESOURCES

Our net cash inflow from operating activities for the six months ended 30 June 2014 amounted to RMB317.1 million compared to a net cash inflow from operating activities of RMB115.8 million for six months ended 30 June 2013. The increase in net cash inflow from operating activities was mainly due to the decrease in trade and bills receivables under the tight control of our credit policy.

In the first half of 2014, we did not enter into any interest rate swaps arrangements to hedge against interest rate risks.

On 16 July 2014, the Board of the Group proposed to issue the domestic corporate bonds (the "Domestic Corporate Bonds") in the PRC with an aggregate principle amount of not more than RMB800 million. The proposed issue of the Domestic Corporate Bonds is subject to appraisal and approval by the shareholders of the Company at the upcoming extraordinary general meeting to be held on 1 September 2014, and also requires approval from the China Securities Regulatory Commission ("CSRC"). Issuance of the Domestic Corporate Bonds will depend on the timing of the CSRC approval and the conditions of the bonds market in the PRC. The use of proceeds is to repay part of the existing short term bank loans and to supplement the general working capital of the Company.

FOREIGN CURRENCY RISKS

Although our Group mainly operates in the PRC with most of the transactions settled in RMB and its reporting currency is RMB, part of its receivables and borrowings and cash balances that are denominated in Hong Kong dollars, United States dollars and Euros. Our Company also pays dividends in Hong Kong dollars. To ensure that net exposure to currency risk is kept to an acceptable level, our Group generally buys and sells foreign currencies at spot rate, or enter into forward contracts that hedge against currency risk where necessary to address short-term imbalances. Any substantial exchange rate fluctuation of foreign currencies against RMB may have a financial impact on our Group.

PLEDGE OF ASSETS

As at 30 June 2014, deposits with certain banks amounting to RMB14.8 million were pledged as securities for bills payable compared to the amount of RMB31.6 million as at 31 December 2013. The pledged bank deposits will be released upon the settlement of the relevant bills payable.

COMMITMENTS AND CONTINGENCIES

As at 30 June 2014, we had a total operating lease commitment of RMB37.9 million. In addition, we had notional amounts of foreign currency forward contracts denominated in United States dollars and Euros of RMB203.2 million and RMB50.6 million, respectively. As at 30 June 2014, we had no material contingent liabilities.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the six months ended 30 June 2014, the Group did not have any significant investments or acquisitions or sales of subsidiaries. The Group will continue to leverage its brand name and reputation to selectively pursue potential strategic overseas acquisition opportunities in order to generate more returns to its shareholders. No plans have been authorized by the Board for any material investments or additions of capital assets as at the date of this interim report.

EMPLOYMENT AND EMOLUMENTS

As at 30 June 2014, our Group employed a total of 5,729 fulltime employees, which included management and administrative, finance and quality control staff, manufacture and production technicians, product design, research and development personnel and sales and marketing staff. For the six months ended 30 June 2014, our Group's total employee remuneration was RMB116.6 million, representing 10.3% of the Group's total turnover.

We place great emphasis on recruiting and training quality personnel by providing introduction training programs to our new employees and on-going internal training to our existing employees to enhance their industrial, technical and product knowledge, their work ethic as well as their knowledge of industry quality standards and work safety standards. Furthermore, we encourage our employees to take advanced courses and obtain professional certifications. We also organise and pay for external trainings for certain employees whom we believe are particularly dedicated to our Group.

PROSPECTS

Looking ahead, with the steady growth policies of the PRC government, China's economy will gradually pick up in the second half of the year. As signs of improvement appeared in the second quarter of 2014, we expect that the economy will maintain a steady rebound in the second half of the year. The Company will pursue the following strategies in the second half of the year:

- expand in e-commerce and proactively implement the new O2O and WeChat (微信) marketing model;
- optimise the deployment of offline outlets based on market changes;
- build up brand culture by developing thematic products to enhance the cultural meaning of the brand;
- develop new products for health function footwear and children's clothing to further diversify the product offering;
- actively pursuing business opportunities, enlarge overseas sales;
- enhance the information systems technology so as to strengthen the vertically integrated business model.

In terms of sales channels, the Company will keep on refining its sales channels by adjusting the national deployment of its sales outlets. In terms of overseas sales, as the global economy rebounded steadily in the second quarter, overseas order also displayed a recovering trend and is expected to maintain stable growth in the second half of the year. In terms of product development, three different themes and style, namely the "New Classical Style", "New Business Style" and "New Comfortable Style", were launched this year to adapt to the new consumption demand of consumers. In terms of branding, the Company continued to cooperate with Mr. Lu Yi, a well-known actor in China, who attended the menswear press conferences and brand promotional activities of the Company as the brand spokesman of the Company. Mr. Lu Yi participated in a well-known TV variety show in China during the first half of the year, leading to a significant increase of his media exposure. His good public image has a positive effect on the promotion of the Fuguiniao brand.

In the second half of the year, the Company will continue to expand its investment in the e-commerce sector while reinforcing the existing traditional offline channels. The footwear and apparel industry has become more transparent and effective with e-commerce, thus enabling consumers to return their focus to the quality of the footwear and apparel products. With the long-standing reputation of offering high quality and high degree of comfort, the Fuguiniao brand guarantees the strong core competitiveness of the Company even in the era of e-commerce.

Moreover, the Company is optimistic about the birth peak which may appear after the launch of the two-child policy for couples where either the husband or the wife is from a single child family. The annual output value of the children's clothing industry in China is expected to grow by 25% to 30% in the coming years. Against this background, the Company will introduce the children's clothing series in a timely manner. As the income level increases, China's residents are becoming more concerned about their health. The Company has introduced a series of health function foot wear products (MZ Health Function Footwear), which has already been launched in certain retail markets in China with good market feedback. The Company will strengthen brand promotion in a timely manner to boost its sales in the nationwide market.

We believe that this round of transformation presents both challenges and opportunities for the footwear and apparel industry. Adhering to the development trend of the industry, the Company will continue to innovate and maintain the core competitive edge of its products, that is"presenting outstanding cost-performance ratio and offering comfortable wearing experience". The management of the Company is highly confident in taking the business development of the Company to a new height.

REVIEW REPORT OF THE AUDITOR

KPMG

Review report to the board of directors of Fuguiniao Co., Ltd.

(Incorporated in the People's Republic of China with joint stock limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 20 to 32 which comprises the consolidated statement of financial position of Fuguiniao Co., Ltd. ("the Company") as of 30 June 2014 and the related consolidated statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 August 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014 – unaudited

(Expressed in Renminbi ("RMB"))

		Six months ended 30 June	
	Note	**2014** **RMB'000**	2013 RMB'000
Turnover	3	**1,135,735**	1,084,406
Cost of sales		**(682,676)**	(666,208)
Gross profit		**453,059**	418,198
Other revenue	4	**20,389**	7,160
Other net (loss)/income	4	**(8,437)**	1,390
Selling and distribution expenses		**(90,963)**	(73,770)
Administrative and other operating expenses		**(64,366)**	(60,815)
Profit from operations		**309,682**	292,163
Finance costs	5(a)	**(9,496)**	(10,633)
Profit before taxation	5	**300,186**	281,530
Income tax expense	6	**(75,229)**	(72,530)
Profit for the period		**224,957**	209,000
Other comprehensive income for the period			
Exchange differences on translation of financial statements of operations outside the mainland China		**147**	–
Total comprehensive income		**225,104**	209,000
Basic earnings per share (RMB)	7	**0.42**	0.52

The notes on pages 24 to 32 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 14.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014 – unaudited

(Expressed in RMB)

	Note	**At 30 June 2014 RMB'000**	At 31 December 2013 RMB'000
Non-current assets			
Fixed assets	8		
– Property, plant and equipment		**106,921**	113,079
– Interests in leasehold land held for own use under operating leases		**8,951**	9,055
Deferred tax assets		**8,067**	6,465
		123,939	128,599
Current assets			
Inventories	9	**230,776**	246,135
Trade and other receivables	10	**717,288**	888,976
Pledged bank deposits	11	**14,814**	31,640
Fixed deposits at banks with maturity over three months	12	**1,415,886**	604,358
Cash and cash equivalents	12	**312,439**	843,353
		2,691,203	2,614,462
Current liabilities			
Bank loans		**370,954**	417,769
Trade and other payables	13	**355,987**	294,965
Current tax payable		**41,147**	90,630
		768,088	803,364
Net current assets		**1,923,115**	1,811,098
Total assets less current liabilities		**2,047,054**	1,939,697
Net assets		**2,047,054**	1,939,697
Capital and reserves	14		
Share capital		**534,909**	533,340
Reserves		**1,512,145**	1,406,357
Total equity		**2,047,054**	1,939,697

The notes on pages 24 to 32 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014 – unaudited

(Expressed in Renminbi)

	Note	Share capital RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2013		400,000	143,135	45,741	–	212,666	801,542
Changes in equity for the six months ended 30 June 2013:							
Profit and total comprehensive income for the period		–	–	–	–	209,000	209,000
Dividends declared	14(a)	–	–	–	–	(200,000)	(200,000)
Balance at 30 June 2013 and 1 July 2013		400,000	143,135	45,741	–	221,666	810,542
Changes in equity for the six months ended 31 December 2013:							
Profit for the period		–	–	–	–	234,729	234,729
Other comprehensive income		–	–	–	(615)	–	(615)
Total comprehensive income		–	–	–	(615)	234,729	234,114
Appropriation to statutory reserve		–	–	43,745	–	(43,745)	–
Issue of H shares, net of listing expenses	14(b)	133,340	761,701	–	–	–	895,041
Balance at 31 December 2013		533,340	904,836	89,486	(615)	412,650	1,939,697
Balance at 1 January 2014		533,340	904,836	89,486	(615)	412,650	1,939,697
Changes in equity for the six months ended 30 June 2014:							
Profit for the period		–	–	–	–	224,957	224,957
Other comprehensive income		–	–	–	147	–	147
Total comprehensive income		–	–	–	147	224,957	225,104
Issue of H shares upon the exercise of over-allotment option	14(b), (c)	1,569	9,062	–	–	–	10,631
Dividends declared	14(a)	–	–	–	–	(128,378)	(128,378)
Balance at 30 June 2014		534,909	913,898	89,486	(468)	509,229	2,047,054

The notes on pages 24 to 32 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014 – unaudited

(Expressed in RMB)

	Note	Six months ended 30 June 2014 RMB'000	2013 RMB'000
Operating activities			
Cash generated from operations		**443,414**	193,770
Income tax paid		**(126,314)**	(77,945)
Net cash generated from operating activities		**317,100**	115,825
Investing activities			
Payment for purchase of fixed assets		**(2,224)**	(2,270)
Net placement of other financial assets		**–**	(77,700)
Placement of time deposits with original maturity over three months		**(961,528)**	(86,000)
Maturity of time deposits with original maturity over three months		**150,000**	–
Interest received from banks		**4,343**	1,680
Net cash used in investing activities		**(809,409)**	(164,290)
Financing activities			
Proceeds from bank loans		**155,684**	257,930
Repayment of bank loans		**(202,513)**	(158,000)
Proceeds from issue of H shares upon the exercise of over-allotment option		**10,631**	–
Decrease in pledged deposits for foreign currency loans		**7,500**	–
Dividend paid		**–**	(173,520)
Interest paid		**(9,548)**	(10,622)
Net cash used in financing activities		**(38,246)**	(84,212)
Net decrease in cash and cash equivalents		**(530,555)**	(132,677)
Cash and cash equivalents at 1 January	12	**843,353**	362,784
Effect of foreign exchange rate changes		**(359)**	(592)
Cash and cash equivalents at 30 June	12	**312,439**	229,515

The notes on pages 24 to 32 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standard Board ("IASB"). It was authorised for issue on 21 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independence review report to the Board of Directors is included on page 19.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to IFRS 10, IFRS12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- IFRIC 21, *Levies*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are manufacturing and trading of shoes and menswear in the PRC. Turnover represents the sales value of goods sold less returns, discounts and VAT.

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Design, manufacture and trading of shoes and accessories ("Shoes")

– Design and trading of menswear ("Menswear")

(i) Segment results

In presenting the information on the basis of business segments, segment turnover and results are based on the turnover and gross profit of Shoes and Menswear.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	Shoes Six months ended 30 June		**Menswear Six months ended 30 June**		**Total Six months ended 30 June**	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Reportable segment turnover	**910,642**	877,547	**225,093**	206,859	**1,135,735**	1,084,406
Cost of sales	**(549,732)**	(540,098)	**(132,944)**	(126,110)	**(682,676)**	(666,208)
Reportable segment gross profit	**360,910**	337,449	**92,149**	80,749	**453,059**	418,198

The Group does not allocate any specific assets or expenditures for property, plant and equipment to the operating segments as the Group's most senior executive management does not use the information to measure the performance of the reportable segments. The performance of the reportable segments is assessed by the Group's most senior executive management base on a measure of the gross profit.

3 TURNOVER AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(ii) Geographic information

The following table sets out information about the geographical location of the Group's turnover from external customers. The geographical location of customers is based on the location at which the goods are delivered.

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
The PRC	**956,987**	920,611
Russia	**47,290**	53,215
Italy	**39,635**	57,192
Austria	**33,742**	29,063
Canada	**21,050**	14,177
Others	**37,031**	10,148
	1,135,735	1,084,406

4 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Other revenue		
Interest income	**10,872**	4,021
Government grants	**9,403**	1,889
Others	**114**	1,250
	20,389	7,160
Other net (loss)/income		
Net foreign exchange loss	**(6,490)**	(422)
Loss on disposal of fixed assets	**–**	(28)
Unrealised (loss)/gain on forward foreign exchange contracts	**(1,979)**	2,007
Others	**32**	(167)
	(8,437)	1,390

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
(a)	Finance costs:		
	Interest on bank loans	**9,496**	10,633
(b)	Other items:		
	Staff costs	**116,582**	106,339
	Depreciation and amortisation	**7,567**	11,298
	Provision for impairment of trade receivables	**4,680**	–
	Research and development costs	**20,766**	19,918
	Operating lease charges in respect of properties	**10,755**	3,861

6 INCOME TAX

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current tax – PRC Corporate Income Tax	**76,013**	70,745
Current tax – Hong Kong Profits Tax	**818**	281
Deferred taxation	**(1,602)**	1,504
	75,229	72,530

(i) The Company and its subsidiaries in mainland China are subject to the PRC Corporate Income Tax at the statutory rate of 25%.

(ii) The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2013: 16.5%) to the six months ended 30 June 2014.

(b) Deferred tax liabilities not recognised

The Group is subject to PRC Corporate Income Tax on dividends receivable from its Hong Kong subsidiaries due to differential income tax rate. Deferred tax liability of RMB722,000 (31 December 2013: RMB455,000) relating to such undistributed profit of the Company's Hong Kong subsidiaries were not recognised as the Company controls the dividend policy of the subsidiary. Based on the assessment made by management as at the end of the reporting period, it was determined that the undistributed profits of the Company's Hong Kong subsidiary would not be distributed in the foreseeable future.

7 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on the profit for the period of RMB224,957,000 (six months ended 30 June 2013: RMB209,000,000) and the weighted average number of 534,788,000 shares (six months ended 30 June 2013: 400,000,000 shares) in issue during the period.

There were no dilutive potential ordinary shares for the six months ended 30 June 2014 and 2013, therefore, diluted earnings per share are the same as the basic earnings per share.

8 FIXED ASSETS

During the six months ended 30 June 2014, the Group acquired items of fixed assets with a cost of RMB1,305,000 (six months ended 30 June 2013: RMB2,079,000). No items of fixed assets were disposed of during the six months ended 30 June 2014.

9 INVENTORIES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Raw material	**129,875**	108,112
Work in progress	**20,856**	50,677
Finished goods	**80,045**	87,346
	230,776	246,135

10 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the breakdown and the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 3 months	**475,561**	649,525
More than 3 months but within 6 months	**148,295**	124,557
More than 6 months but within 1 year	**28,442**	59,878
More than 1 year	**1,392**	1,230
Trade and bills receivables, net of allowance for doubtful debts	**653,690**	835,190
Prepayments to suppliers	**32,577**	30,654
VAT deductible	**8,491**	6,329
Interest receivable	**8,258**	1,728
Other deposits and prepayments	**14,272**	15,075
	717,288	888,976

All of the current trade and other receivables are expected to be recovered or recognised as expense within one year, except for the Group's deposits which are expected to be recovered after more than one year. Such deposits amounted to RMB6,210,000 as at 30 June 2014 (31 December 2013: RMB4,246,000).

The Group accepts bank acceptance bills from major banks in the PRC for settlement of trade debts. The management considered that the risk of these bills relates substantially to interest rate risk. Accordingly, when these bills were transferred by either discounting or endorsement, they were derecognised as a financial asset. At 30 June 2014, the Group transferred bank acceptance bills totalling RMB217,060,000 (31 December 2013: RMB184,310,000) and derecognised them as financial assets. These bank acceptance bills mature between three to six months from the date of issue.

10 TRADE AND OTHER RECEIVABLES (Continued)

Trade receivables are normally due within 90 days from the date of billing. The Group set a maximum revolving credit limit to each distributor. In determining the amount of the credit limit, the Group takes into account the factors including the credit history, prior year's purchases, estimated purchases for the current period, funding required by the distributor to expand the retail network and market conditions. The Group generally evaluates the revolving credit limit of each domestic distributor annually upon renewal of the relevant distributor agreement.

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly. At 30 June 2014, the Group's trade receivables of RMB4,680,000 (31 December 2013: Nil) were individually determined to be impaired.

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired is set out as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Neither past due nor impaired	**475,561**	649,525
Less than 3 months past due	**148,295**	124,557
More than 3 months past due	**29,834**	61,108
	653,690	835,190

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11 PLEDGED BANK DEPOSITS

The amount represents bank deposits pledged as security for bills payable (see note 13). The pledged bank deposits are expected to be released upon the settlement of relevant bills payable.

12 CASH AND CASH EQUIVALENTS AND FIXED DEPOSITS AT BANKS

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Cash and cash equivalents in the consolidated statement of financial position and the condensed consolidated statement of cash flow	**312,439**	843,353
Deposits with banks with more than three months to maturity when placed	**1,415,886**	604,358
	1,728,325	1,447,711

13 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 3 months	**137,894**	135,306
More than 3 months but within 6 months	**23,512**	62,803
More than 6 months but within 1 year	**1,024**	1,230
More than 1 year	**1,124**	1,087
Trade and bills payables	**163,554**	200,426
Receipts in advance	**10,487**	10,499
Amount due a related party	**–**	2,268
Dividends payable	**120,687**	–
VAT and other taxes payable	**17,948**	24,838
Other payables and accruals	**41,331**	56,934
Derivative financial instruments – foreign currency forward contracts	**1,980**	–
	355,987	294,965

Bills payable as at 30 June 2014 were secured by pledged bank deposits (see note 11).

14 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

	2014 RMB'000	2013 RMB'000
Interim dividend declared and paid after the interim period of RMB0.15 per share (2013: RMB0.5 per share)	**80,236**	200,000

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.24 per share (2013: Nil)	**128,378**	–

14 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Share capital

(i) Ordinary shares

	At 30 June 2014 No. of Shares '000	**At 30 June 2014 RMB'000**	At 31 December 2013 No. of shares '000	At 31 December 2013 RMB'000
Ordinary shares, issued and fully paid:				
Domestic shares of RMB1 each	**48,800**	**48,800**	48,800	48,800
H shares of RMB1 each	**486,109**	**486,109**	484,540	484,540
	534,909	**534,909**	533,340	533,340

(ii) Movements of the Company's share capital

	2014 RMB'000	2013 RMB'000
At 1 January	**533,340**	400,000
Issue of H shares	**1,569**	133,340
As at 30 June/31 December	**534,909**	533,340

(c) Capital reserve

On 15 January 2014, a total number of 1,569,200 H shares were issued at HK$8.81 per share upon the exercise of over-allotment option. The difference between the total amount of the par value of 1,569,200 H shares issued and the net proceeds received from the exercise of over-allotment option amounting to RMB10,631,000 is recorded as capital reserve.

15 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments are carried at amounts not materially different from their fair values as at 31 December 2013 and 30 June 2014 because of the short maturities of these instruments.

The fair value of foreign currency forward contracts (note 13) is categorised as level 1 of the fair value hierarchy as defined in IFRS13, *Fair value measurement*, which was measured using quoted prices in active markets for similar financial instruments.

16 OPERATING LEASE COMMITMENT

As at 30 June 2014 and 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 year	**21,337**	20,311
After 1 year but within 5 years	**16,566**	23,525
	37,903	43,836

17 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2014, the directors are of view that the following is a related party of the Group:

Name of party	**Relationship**
Fujian Shishi Fuguiniao Group Co., Ltd * ("Shishi Fuguiniao Group") 福建石獅市富貴鳥集團有限公司	Collectively owned by Mr Lam Wo Ping, Mr Lam Wo Sze, Mr Lam Kwok Keung and Mr Lam Wing Ho

* The English translation of the company's name is for reference only. The official name of the company is in Chinese.

(a) Transaction with related party

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Rental expenses in relation to property, plant and equipment	**7,548**	2,578

(b) Balance with related party

	At 30 June 2014	At 31 December 2013
	RMB'000	RMB'000
Non-trade related		
Rental payable to Shishi Fuguiniao Group	**–**	2,268

(c) Key management personnel remuneration

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Salaries and other emoluments	**2,100**	1,891
Contributions to retirement benefit scheme	**5**	4
	2,105	1,895

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board is committed to upholding a high standard of corporate governance and business ethics in the firm belief that they are essential for enhancing investors' confidence and maximizing shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders of the Company, comply with increasingly stringent regulatory requirements and fulfill its commitment to excellence in corporate governance.

After reviewing the Company's corporate governance practices and the relevant regulations of the CG Code as set out in Appendix 14 to the Listing Rules, the Board is satisfied that the Company complied with the CG Code provisions for the six months ended 30 June 2014.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Company by the Directors and supervisors of the Company.

Upon making specific enquiries to all of the Directors and supervisors of the Company, all Directors and supervisors of the Company confirmed that throughout the six months ended 30 June 2014, each of the Directors and supervisors of the Company had fully complied with the required standards set out in the Model Code.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Board has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2014 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

SHARE CAPITAL

As at 30 June 2014, the total share capital of the Company was RMB534,909,200, divided into 534,909,200 shares of RMB1.00 each.

Details of movements in the share capital of the Company during the period are set out in Note 14 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2014, the interests or short positions of the Directors, supervisors and the chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code, will be as follows:

(i) Interests of the Directors in the shares of our Company

Name of Director	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[1]	Percentage in the total issued share capital[1]
Mr. Lam Wo Ping[2][3]	H shares	351,200,000	Interest in a controlled corporation	72.25%	65.66%
Mr. Lam Wo Sze[2]	H shares	331,200,000	Interest in a controlled corporation	68.13%	61.92%
Mr. Lam Kwok Keung[2]	H shares	331,200,000	Interest in a controlled corporation	68.13%	61.92%
Mr. Lam Wing Ho[2]	H shares	331,200,000	Interest in a controlled corporation	68.13%	61.92%

(1) The calculation is based on the total number of 534,909,200 ordinary shares of the Company in issue as at 30 June 2014, which was comprised of 48,800,000 domestic shares and 486,109,200 H shares.

(2) Fuguiniao Holdco is owned as to 32.5% by Mr. Lam Wo Ping, 22.5% by Mr. Lam Wo Sze, 22.5% by Mr. Lam Kwok Keung and 22.5% by Mr. Lam Wing Ho. Mr. Lam Wo Ping and Mr. Lam Wo Sze are brothers, and are also cousins with each of Mr. Lam Kwok Keung and Mr. Lam Wing Ho. Each of Mr. Lam Wo Ping, Mr. Lam Wo Sze, Mr. Lam Kwok Keung and Mr. Lam Wing Ho is deemed to be interested in the H shares of the Company held by Fuguiniao Holdco for the purpose of the SFO.

(3) Wo Hing Trading is wholly-owned and controlled by Mr. Lam Wo Ping and Mr. Lam Wo Ping is therefore deemed to be interested in all the 20,000,000 H shares of the Company beneficially owned by Wo Hing Trading.

(ii) Interests of the Directors in the shares of Fuguiniao Holdco (being a holding company of our Company)

Name	Number of shares	Nature of interest	Percentage in issued share capital
Mr. Lam Wo Ping	3,250	Beneficial owner	32.50%
Mr. Lam Wo Sze	2,250	Beneficial owner	22.50%
Mr. Lam Kwok Keung	2,250	Beneficial owner	22.50%
Mr. Lam Wing Ho	2,250	Beneficial owner	22.50%

Saved as disclosed above, as at 30 June 2014, none of the Directors, supervisors and the chief executive of the Company and their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the Directors, supervisors and the chief executive of the Company and their respect associates to hold any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, the persons or corporations who had an interest or short position in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Shareholder	Class of shares	Number of shares	Nature of interest	Percentage in the relevant class of share capital[1]	Percentage in the total issued share capital[1]
Fuguiniao Holdco[2]	H shares	331,200,000	Beneficial owner	68.13%	61.92%
Mr. Lam Wo Ping[2][3]	H shares	351,200,000	Interest in a controlled corporation	72.25%	65.66%
Mr. Lam Wo Sze[2]	H shares	331,200,000	Interest in a controlled corporation	68.13%	61.92%
Mr. Lam Kwok Keung[2]	H shares	331,200,000	Interest in a controlled corporation	68.13%	61.92%
Mr. Lam Wing Ho[2]	H shares	331,200,000	Interest in a controlled corporation	68.13%	61.92%

(1) The calculation is based on the total number of 534,909,200 ordinary shares of the Company in issue as at 30 June 2014, which was comprised of 48,800,000 domestic shares and 486,109,200 H shares.

(2) Fuguiniao Holdco is owned as to 32.5% by Mr. Lam Wo Ping, 22.5% by Mr. Lam Wo Sze, 22.5% by Mr. Lam Kwok Keung and 22.5% by Mr. Lam Wing Ho. Mr. Lam Wo Ping and Mr. Lam Wo Sze are brothers, and are also cousins with each of Mr. Lam Kwok Keung and Mr. Lam Wing Ho. Each of Mr. Lam Wo Ping, Mr. Lam Wo Sze, Mr. Lam Kwok Keung and Mr. Lam Wing Ho is deemed to be interested in the Shares held by Fuguiniao Holdco for the purpose of SFO.

(3) Wo Hing Trading is wholly-owned and controlled by Mr. Lam Wo Ping and Mr. Lam Wo Ping is therefore deemed to be interested in all the Shares in which Wo Hing Trading is interested.

Save as disclosed above, as at 30 June 2014, the Directors were not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

INTERIM DIVIDENDS

For the six months ended 30 June 2014, the Board has proposed an interim dividend of RMB0.15 per ordinary share (before tax) and RMB80,236,380 in aggregate (before tax) (the "**2014 Interim Dividends**"), subject to approval by the shareholders of the Company at the upcoming extraordinary general meeting of the Company to be held on 14 October 2014 (the "**EGM**"). Dividends on domestic shares will be paid in RMB and dividends on H shares will be paid in HK$. The 2014 Interim Dividends will be paid to the holders of H shares of the Company on 8 December 2014.

Pursuant to the Corporate Income Tax Law of the PRC and its implementation rules and other relevant rules, where the Company distributes the proposed 2014 Interim Dividends to non-resident enterprise shareholders whose names appear on the register of members for H shares of the Company, it is required to withhold corporate income tax at the rate of 10%. Any H shares registered in the name of non-individual registered shareholders, including HKSCC Nominees Limited, other nominees or trustees, or other organisations or groups, will be treated as shares being held by non-resident enterprise shareholders, and consequently will be subject to the withholding of the corporate income tax.

Pursuant to the PRC Individual Income Tax Law, the Implementation Regulations of the Individual Income Tax Law, the Tentative Measures on Withholding and Payment of Individual Income Tax and other relevant laws and regulations, the foreign individuals who are the holders of H shares shall pay individual income tax at a tax rate of 20% upon their receipt of distribution of dividend from domestic enterprises which issued such H shares, which shall be withheld and paid by such domestic enterprises on behalf of the such individual H shareholders. However, the Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax effective from 13 May 1994 (the "**1994 Notice**") grants exemption to foreign individuals from PRC individual income tax on dividend from foreign-invested enterprises. Since the Company is a "foreign-invested enterprise" as approved by the relevant PRC authorities, the individual shareholders who hold the Company's H shares and whose names appear on the register of members of H shares of the Company (the "**Individual H Shareholders**") are not required to pay PRC individual income tax when the Company distributes the 2014 Interim Dividends based on the 1994 Notice. Therefore, the Company will not withhold any amount of the 2014 Interim Dividends to be distributed to the Individual H Shareholders to pay the PRC individual income tax.

Shareholders are recommended to consult their taxation advisors for advice on the PRC, Hong Kong and other tax effects with respect to the holding and disposing of H shares of the Company.

According to the articles of association of the Company, unless otherwise provided by the relevant laws and regulations, for the payment of cash dividends and other payments in foreign currency, the applicable exchange rates shall be the average selling price announced by the People's Bank of China for the one calendar week before the declaration date of such cash dividends and other payments.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain shareholders' entitlement to attend and vote at the EGM and to the 2014 Interim Dividends, the H share register of members of the Company will be closed from Saturday, 13 September 2014 to Tuesday, 14 October 2014 (both days inclusive) and from Saturday, 18 October 2014 to Thursday, 23 October 2014 (both days inclusive), respectively, during which periods no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming EGM, holders of H shares of the Company shall lodge transfer documents with the Company's H share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration before 4:30 p.m. on Friday, 12 September 2014. In order to qualify for receiving the 2014 Interim Dividends (subject to the approval by shareholders of the Company at the forthcoming EGM), holders of H shares of the Company shall lodge transfer documents with the Company's H share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at the above mentioned address for registration before 4:30 p.m. on Friday, 17 October 2014.

CHANGE OF DIRECTORS, SUPERVISORS AND MEMBERS OF THE BOARD COMMITTEE

On 2 April 2014, Ms. Han Ying resigned as an executive Director with effect from the same date, due to the Company's redeployment of human resources and restructuring of Board composition.

On 2 April 2014, Mr. Lam Wing Ho ("**Mr. Lam**") was re-designated from a non-executive Director to an executive Director to be in charge of the Group's administrative affairs and public relations with effect from the same date due to the Company's redeployment of human resources and restructuring of Board composition. Mr. Lam entered into a new service contract in place of his previous service contract with the Company, commencing from 2 April 2014 and ending on the expiration of the term of the first session of the Board, which is for a period of three years from 29 June 2012. Under the new service contract, Mr. Lam will not receive any director's fee during his appointment as an executive Director. For details in relation to Mr. Lam's re-designation as an executive Director, please refer to the announcement of the Company dated 2 April 2014.

On 30 June 2014, Mr. Zhang Huaqiao resigned as an independent non-executive Director and the chairman of the remuneration committee of the Board with effect from the same date, due to his other business and professional endeavors which require more of his attention and dedication. To fill the vacancy arising from the resignation of Mr. Zhang, Ms. Chan Wah Man, Carman ("**Ms. Chan**"), has been appointed as an independent non-executive Director and chairlady of the remuneration committee of the Board with effect from 30 June 2014. The Company entered into a service contract with Ms. Chan. Ms. Chan shall hold office as an independent non-executive Director until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Upon re-election of Ms. Chan as an independent non-executive Director by the shareholders of the Company at such meeting, the service contract will be automatically renewed for a further term of three years. The initial Director's emolument for Ms. Chan is RMB200,000 (before tax) per annum, and such emolument was determined with reference to the market rates, as well as the performance, qualifications and experience of Ms. Chan. For details in relation to the resignation of Mr. Zhang Huaqiao and the appointment of Ms. Chan, please refer to the announcement of the Company dated 1 July 2014.

Save as disclosed above, there is no other information in relation to change of Directors, supervisors or members of the Board committees, or as otherwise required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

GLOSSARY

In this interim report, unless the context otherwise requires, the following terms shall have the following meanings:

"Board"	The Board of Directors of the Company
"CG Code"	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Company" or "our Company"	Fuguiniao Co., Ltd. (富貴鳥股份有限公司)
"Director(s)"	The director(s) of the Company
"Fuguiniao Holdco"	Fuguiniao Group Limited (富貴鳥集團有限公司), a limited liability company incorporated on 9 April 2001 under the laws of Hong Kong and owned as to 32.5% by Mr. Lam Wo Ping, 22.5% by Mr. Lam Wo Sze, 22.5% by Mr. Lam Kwok Keung and 22.5% by Mr. Lam Wing Ho. It is one of the controlling shareholders of the Group
"GDP"	Gross domestic product
"Group" or "our Group"	The Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Model Code"	Model code for securities transactions by directors of listed issuers
"PRC"	The People's Republic of China excluding, for the purpose of this interim report,Hong Kong, Macau and Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Wo Hing Trading"	Wo Hing (China) Trading Limited (和興（中國）貿易有限公司), a limited liability company incorporated under the laws of Hong Kong on 16 November 2010 and wholly-owned by Mr. Lam Wo Ping. It is one of the controlling shareholders of the Group