Belle International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1880)

2016/17 Annual Report

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CORPORATE INFORMATION

Board of Directors

Chairman

Mr. Tang Yiu
(Non-executive Director)

Executive Directors

Mr. Sheng Baijiao
(Chief Executive Officer)
Mr. Tang King Loy
Mr. Sheng Fang
Mr. Yu Wu

Non-executive Directors

Mr. Tang Wai Lam
Ms. Hu Xiaoling

Independent Non-executive Directors

Mr. Ho Kwok Wah, George
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi
Mr. Gao Yu

Authorized Representatives

Mr. Tang King Loy
Mr. Leung Kam Kwan

Audit Committee

Mr. Ho Kwok Wah, George
(Chairman)
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi
Mr. Gao Yu

Remuneration Committee

Mr. Chan Yu Ling, Abraham
(Chairman)
Mr. Sheng Baijiao
Dr. Xue Qiuzhi
Mr. Gao Yu

Nomination Committee

Dr. Xue Qiuzhi *(Chairman)*
Mr. Sheng Baijiao
Mr. Chan Yu Ling, Abraham

Company Secretary

Mr. Leung Kam Kwan, *FCPA*

Registered Office

Offshore Incorporation
(Cayman) Limited
P.O. Box 31119, Grand Pavilion
Hibiscus Way, 802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

9/F Belle Tower
918 Cheung Sha Wan Road
Cheung Sha Wan
Hong Kong

Stock Code

1880

Website

www.belleintl.com

Legal Advisor

Cleary Gottlieb Steen &
Hamilton (Hong Kong)
37th Floor, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building
Central
Hong Kong

Principal Share Registrar

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong
Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

The Hongkong and Shanghai
Banking Corporation Limited
Hang Seng Bank Limited
DBS Bank (HK) Limited
China Merchants Bank Co., Ltd.
Bank of Communications Co., Ltd.

FINANCIAL HIGHLIGHTS

		Year ended 28 February 2017	Year ended 29 February 2016
Revenue	RMB million	**41,706.5**	40,790.2
Operating profit	RMB million	**3,555.2**	4,201.5
Operating profit before impairment of intangible assets	RMB million	**4,658.5**	5,557.9
Income tax expense	RMB million	**1,596.9**	1,596.1
Profit attributable to the Company's equity holders	RMB million	**2,403.4**	2,934.1
Gross profit margin	%	**54.3**	56.3
Operating profit margin	%	**8.5**	10.3
Operating profit margin before impairment of intangible assets	%	**11.2**	13.6
Profit margin attributable to the Company's equity holders	%	**5.8**	7.2
Earnings per share			
– basic	RMB cents	**29.38**	35.86
– diluted	RMB cents	**28.50**	34.79
Dividend per share			
– interim, paid	RMB cents	**12.00**	16.00
– final, proposed	RMB cents	**6.00**	6.00
Average trade receivables turnover period	days	**35.0**	40.9
Average trade payables turnover period	days	**19.5**	20.2
Average inventory turnover period	days	**141.3**	135.7

		As at 28 February 2017	As at 29 February 2016
Gearing ratio	%	**–**	2.8
Current ratio	times	**4.4**	3.6

STATEMENT FROM CHAIRMAN

Dear Shareholders,

Over the recent two to three years, the brick-and-mortar retail sector in China has been under pressure. In particular, the fashion apparel, footwear and accessory industries have experienced the hardship of stagnant growth and declining profitability.

On the back of increasing demand for sports and fitness from consumers, the Group's sportswear and apparel business maintained its healthy growth. However, the footwear business continued the downward trend in same store sales and profitability due to weakening foot traffic and changing consumer preferences.

For the year ended 28 February 2017 (the "Financial Year 2016/17") the footwear business recorded a revenue decline of 10.0% while the sportswear and apparel business recorded a revenue increase of 15.4% compared with that of last year. Total revenue of the Group increased by 2.2%. Operating profit declined by 15.4%. Profit attributable to equity holders of the Company declined by 18.1%.

The network of retail outlets of the Group was largely stable. For the Financial Year 2016/17, there was a net decrease of 700 company-managed retail outlets in the footwear business in Mainland China, while in the sportswear and apparel business there were 543 net additions. As at 28 February 2017, the total number of company-managed retail outlets of the Group was 20,841, of which 20,716 were in Mainland China, 125 in Hong Kong and Macau.

As I contemplate the challenges faced by the footwear business with a very heavy heart. Looking back over the first two decades since its inception, the Group has weathered challenging times. Thanks to the early rapid growth of the branded footwear market in China and the hard work of the Company's first-generation colleagues, the Group achieved successful business development and quickly became the largest footwear business in China. However, in recent years, consumers have become much more sophisticated, while retail channels have been evolving quickly to adapt to the challenging environment. These pose serious challenges to the business model of the Group. What made us successful in the past has gradually become disadvantage due to an inadequate adjustment of channel strategy and a lack of new marketing approaches. The core footwear business also suffers from a series of problems stemming from brand image, product updates, product design, and value for money among others.

To ensure a sustainable development of the Group, it is imperative to implement strategic transformation in full swing. Such transformation shall be customer-oriented in terms of products, branding and channels by exploring and adopting new retail formats, so as to radically reshape consumer interaction and customer relationship.

In light of the sense of responsibility and mission of our core management team as well as their ability to learn and execute, I believe that, with the motivation and joint effort of all my colleagues and with an entrepreneurial spirit to restart a new venture, together with necessary external resources and capacities, such a transformation will be successful.

Tang Yiu
Chairman

15 May 2017

STATEMENT FROM CEO

Dear Shareholders,

On behalf of the board of directors of the Company (the "Board"), I hereby report the results for the year ended 28 February 2017 (the "Financial Year 2016/17") as follows:

RESULTS FOR THE FINANCIAL YEAR 2016/17

In the Financial Year 2016/17, the Group recorded a revenue of RMB41,706.5 million, a 2.2% increase compared with that of last year. Revenue of the footwear business declined by 10.0% compared with that of last year, to RMB18,960.0 million. Revenue of the sportswear and apparel business increased by 15.4% compared with that of last year, to RMB22,746.5 million. The footwear business contributed 45.5% of the revenue of the Group, significantly lower than the 51.7% level in last year.

The Group's operating profit was RMB3,555.2 million, lower by 15.4% than last year. Operating profit margin was 8.5%, a decrease of 1.8 percentage points from that of last year. Excluding the impairment of goodwill and other intangible assets of the footwear business in this year and last year, operating profit decreased by 16.2% from last year. First it was due to changes in the business mix, with significantly higher revenue contribution from the sportswear and apparel business, which has a lower profit margin of segment results. Second, the profit margin of segment results was significantly lower in the footwear business. Third, there was a small decline in the profit margin of segment results of the sportswear and apparel business.

Profit attributable to equity holders of the Company amounted to RMB2,403.4 million, a decrease of 18.1% from last year. Basic earnings per share amounted to RMB29.38 cents, a decrease of 18.1% from RMB35.86 cents of last year. Diluted earnings per share amounted to RMB28.50 cents, a decrease of 18.1% from RMB34.79 cents of last year.

The Board has recommended a final dividend of RMB6.0 cents per ordinary share for the Financial Year 2016/17. Together with the interim dividend of RMB12.0 cents per ordinary share (paid on 6 December 2016), the total dividend for the Financial Year 2016/17 will amount to RMB18.0 cents (Financial Year 2015/16: RMB22.0 cents) per ordinary share.

SUMMARY OF THE BUSINESS OF THE GROUP

The Group's business is divided into two main segments – the footwear business and the sportswear and apparel business.

Footwear business

Company-owned brands of the footwear business mainly include Belle, Teenmix, Tata, Staccato, Senda, Basto, Joy & Peace, Millie's, SKAP,:15MINS, Jipi Japa, Mirabell, etc. Distribution brands mainly include Bata, Clarks, Hush Puppies, Mephisto, Caterpillar, etc.

For company-owned brands, the Group mainly adopts a vertically integrated business model which covers product research and development, procurement, manufacturing, distribution and retailing. For distribution brands, the Group operates the business mainly in two different models, brand licensing and retail distribution.

The table below sets out the revenue of the footwear business from the company-owned brands, distribution brands as well as international trade of the Group, and their respective percentages of revenue and comparative growth rates for the periods indicated.

	Year ended				
	28 February 2017		29 February 2016		
	Revenue	**% of total**	Revenue	% of total	Growth rate
Company-owned brands	**16,674.8**	**87.9%**	18,652.4	88.5%	(10.6%)
Distribution brands	**2,065.0**	**10.9%**	2,105.8	10.0%	(1.9%)
Sub-total	**18,739.8**	**98.8%**	20,758.2	98.5%	(9.7%)
International trade	**220.2**	**1.2%**	316.0	1.5%	(30.3%)
Total	**18,960.0**	**100.0%**	21,074.2	100.0%	(10.0%)

Unit: RMB million

Sportswear and apparel business

The majority of the sportswear and apparel business is in the form of retail distribution, including first-tier sportswear brands Nike and Adidas, second-tier sportswear brands PUMA, Converse, etc. and apparel brands moussy, SLY, REPLAY, etc.

The table below sets out the revenue of the sportswear and apparel business from the first-tier sportswear brands, second-tier sportswear brands as well as other sportswear and apparel business of the Group, and their respective percentages of revenue and comparative growth rates for the periods indicated.

	Year ended				
	28 February 2017		29 February 2016		
	Revenue	**% of total**	Revenue	% of total	Growth rate
First-tier sportswear brands	**19,345.8**	**85.0%**	16,945.3	86.0%	14.2%
Second-tier sportswear brands	**2,152.6**	**9.5%**	1,954.2	9.9%	10.2%
Other sportswear and apparel business	**1,248.1**	**5.5%**	816.5	4.1%	52.9%
Total	**22,746.5**	**100.0%**	19,716.0	100.0%	15.4%

Unit: RMB million

Company-managed retail outlets

The following map shows the geographical distribution of company-managed retail outlets of the Group in Mainland China as at 28 February 2017.

The following table sets out the distribution of company-managed retail outlets of the Group by region and by business segment in Mainland China as at 28 February 2017.

	Number of Company-managed Retail Outlets							
	Footwear			Sportswear and apparel				
Region	Company-owned brands	Distribution brands	Sub-total	First-tier brands	Second-tier brands	Apparel	Sub-total	Total
Eastern China	1,871	337	2,208	786	287	62	1,135	3,343
Southern China	2,052	163	2,215	767	212	34	1,013	3,228
Northern China	1,794	255	2,049	940	191	39	1,170	3,219
Shandong and Henan	1,125	73	1,198	1,260	399	6	1,665	2,863
North-eastern China	1,057	92	1,149	717	90	6	813	1,962
North-western China	1,042	134	1,176	378	73	6	457	1,633
South-western China	1,015	98	1,113	411	58	22	491	1,604
Central China	868	116	984	452	112	9	573	1,557
Yunnan and Guizhou	507	22	529	257	75	5	337	866
Guangzhou	422	19	441	–	–	–	–	441
Total	11,753	1,309	13,062	5,968	1,497	189	7,654	20,716

Notes: In addition, the Group operates 125 company-managed retail outlets in Hong Kong and Macau.

OVERVIEW OF THE MARKET AND MANAGEMENT DISCUSSIONS

Impact of the macro environment on the Group's business

In 2016, China's macroeconomic growth continued to be weak. Compared with that of last year, annual GDP grew by 6.7%. Average nominal disposable income of urban residents grew by 7.8%. Consumer price index was up by 2.0%. Aggregate retail value of social consumer goods grew by 10.3%.

According to the National Commercial Information Center of China, in 2016 the top 100 retailers experienced a further decline in merchandise sales by 0.5% from last year, a decline 0.4 percentage points wider than that of the previous year.

Since 2017, the State Council has introduced a series of measures aimed at lowering taxes and administrative charges, which in the long run, may help improve the overall business environment. They, however, are not expected to bring visible and direct benefits to the Group in the short run.

STATEMENT FROM CEO

Review of the footwear business

In the Financial Year 2016/17, the footwear business of the Group recorded a revenue decline of 10.0% compared with that of last year. The main driver was a double-digit decline in same store sales, mostly due to volume. The average selling price was down slightly.

During the year, the footwear retail network experienced a small contraction, with 700 net closures to footwear retail outlets in Mainland China. The main reason was that the Group was more proactive in store clustering planning and more cautions in evaluating the channel environment. For certain less promising stores we chose to either relocate or close down. Moreover, the Group started to push forward the expansion of online business and factory outlets during the year. These channels could facilitate inventory clearance and replace some underperforming offline stores. Such optimization process is expected to continue into the next year or two.

The gross profit margin of footwear business was 66.9%, lower by 0.4 percentage points from that of last year. Various expenses of the footwear business, including selling and distribution expenses, and general and administrative expenses, as a percentage of revenue, increased by 2.6 percentage points. This was mainly due to the decline in same store sales which resulted in significantly higher wages and benefits as a percentage of revenue.

In the Financial Year 2016/17, the profit margin of segment results of the footwear business was 15.7%, a decrease of 3.0 percentage points than that of last year. In the near future, if the negative growth of same store sales persists, the profit margin of segment results of the footwear business will possibly continue to fall.

Review of the sportswear and apparel business

In the Financial Year 2016/17, the sportswear and apparel business recorded a revenue increase of 15.4% compared with that of last year, partly attributable to the healthy same store sales growth at mid-single-digit, and partly attributable to the continued and steady retail network expansion.

In the Financial Year 2016/17, there were 543 net additions to the network of sportswear and apparel retail outlets, representing a net increase of 7.6% compared with the number of outlets as at 29 February 2016. Specifically, there were 252 net additions for first-tier sportswear brands, 251 net additions for second-tier sportswear brands, and 40 net additions for the apparel business.

The gross profit margin of the sportswear and apparel business was 43.8%, 0.7 percentage points lower than last year, mainly due to the fact that inventory was low last year resulting in a higher than normal level of gross profit margin. This year the inventory situation is being normalized. Various expenses of the sportswear and apparel business, including selling and distribution expenses, and general and administrative expenses, as a percentage of revenue, were consistent with last year. This indicates a mid-single-digit same store sales growth was enough to offset higher expenses.

STATEMENT FROM CEO

In the Financial Year 2016/17, the profit margin of segment results of the sportswear and apparel business was 8.1%, slightly lower than the 8.8% level of last year. Taking into account the healthy momentum of China's sports goods market, as well as the fact that the Group's sportswear and apparel business involves only the retail part of the value chain, it is our view that the current level of profit margin of segment results of the sportswear and apparel business is reasonable and normal from a long-term perspective.

Changes in the Group's business mix

In the Financial Year 2016/17, the sportswear and apparel business recorded a double-digit revenue growth, contrasting a double-digit revenue decline of the footwear business. As such, the sportswear and apparel business contributed 54.5% to the revenue of the Group, up from 48.3% of last year, overtaking the footwear business.

Because of significant differences in business model and profitability between the footwear segment and the sportswear and apparel segment, changes in the business mix would usually drive changes in the blended financial metrics and operational metrics of the Group. In the Financial Year 2016/17, revenue of the Group was slightly up, yet operating profit declined significantly, representing a decline in operating profit margin by 1.8 percentage points. Apart from the blended profitability metrics, other metrics such as blended expense-to-revenue ratio and average inventory turnover days would also be affected by any change in business mix. Shareholders and investors are advised to refer to the segment data in analysing the relevant metrics.

It is in a way understandable that the sportswear and apparel business overtook the footwear business in terms of scale. Generally speaking, in developed countries, the athletic and casual styles dominate the footwear market, with limited market share for formal dress shoes. With the fast growth and continued sophistication of Chinese consumers, their demand most likely will be more visible in the sports and casual styles, driven by diverse lifestyles and unique aesthetics. The Group's past decision of entry into sportswear and apparel was based on the same view. As a long term strategy, the Group wishes to maintain active involvement in footwear, sportswear, fashion apparel, and accessories. With exposure to different market segments we not only aim to lower business risk but also strive to follow the trend and make the most of growth opportunities.

Changes in income tax rate

The Group's effective income tax rate was 39.8% for the Financial Year 2016/17, higher than the 35.1% of last year. This is because there was a large amount of impairment of goodwill for the footwear business, which is not deductible for tax purposes. Excluding the impairment of goodwill of the footwear business in this year and last year, the effective income tax rate increased by 5.1 percentage points from 28.2% for the year ended 29 February 2016 to 33.3% for the year ended 28 February 2017. The main reason is there was also a high level of dividends declared or distributed to foreign holding companies by the Company's subsidiaries in Mainland China during the year, which accordingly increased the payment of withholdings taxes.

STATEMENT FROM CEO

Currently, the Group is subject to income tax at a rate of approximately 25% for the footwear business and the sportswear and apparel business in Mainland China, and is subject to income tax at a rate of 16.5% for the business in Hong Kong. The withholding tax rate applicable to any declaration or distribution of dividends to foreign holding companies by the Company's subsidiaries in Mainland China is 5%.

Inventory turnover

The average inventory turnover days of the Group were 141.3 days in the Financial Year 2016/17, higher than the 135.7 days of last year.

For the footwear business, the average inventory turnover days were 215.8 days, higher than the 208.2 days of last year. This was mainly due to the substantial decline in same store sales, which adversely affected inventory turnover efficiency. Inventory balance as at 28 February 2017 was RMB3,512.9 million, a decrease of 10.0% from RMB3,901.9 million as at 29 February 2016 and in line with the decline of sales.

For the sportswear and apparel business, the average inventory turnover days were 104.8 days, higher than the 90.1 days of last year. In the last two years, inventory of the sportswear and apparel business was relatively low. After proactive restocking, the inventory level has been gradually normalising.

To address high inventory level for the footwear business, the Group is taking proactive measures to clear off-season products through off-price channels such as factory outlets and e-commerce platforms. In the meantime, the Group is also actively making adjustments to pricing tactics and operational models to accelerate sales of new collections.

Impairment of goodwill and other intangible assets

As at 29 February 2016, the net book value of intangible assets of the Group amounted to RMB2,582.8 million, of which goodwill accounted for RMB1,802.8 million (including RMB782.2 million associated with the shoes and footwear products and RMB1,020.6 million associated with the sportswear and apparel products), and other intangible assets accounted for RMB780.0 million (including RMB377.8 million associated with the shoes and footwear products and RMB402.2 million associated with the sportswear and apparel products).

During the year, as sales of the Group's footwear business further declined, the profit margin of segment results significantly lower than that of last year. The weak performance of the footwear business led to an impairment of its intangible assets for a total of RMB1,103.3 million, of which goodwill accounted for RMB782.2 million and other intangible assets accounted for RMB321.1 million.

STATEMENT FROM CEO

As at 28 February 2017, the Group had intangible assets with net book value after impairment of RMB1,397.8 million, of which goodwill accounted for RMB1,020.6 million (all were associated with sportswear and apparel products) and other intangible assets accounted for RMB377.2 million.

In view of current market conditions and the performance of the sportswear and apparel business of the Group, there is no significant risk of impairment to the goodwill and other intangible assets associated with the sportswear and apparel business in the near term.

Listing of Baroque Japan Limited

On 1 November 2016, Baroque Japan Limited ("Baroque"), an associate of the Group, was listed on the Tokyo Stock Exchange. Prior to Baroque's listing, the Group held 31.96% of the entire issued share capital of Baroque, through a wholly-owned subsidiary of the Group. Baroque issued new shares for the initial public offering ("IPO"). Also due to the public float requirement of minimum level of public ownership under the listing rules, the Group disposed a part of the existing shares at the issue price, proportionally with other pre-IPO shareholders As a result, the Group's shareholdings of Baroque after its listing was reduced to 20.52% and the Group recorded one-off gains on partial disposal and dilution of interest in an associate of RMB160.3 million during the year.

The successful listing of Baroque indicates strong recognition of its brands and businesses in the capital market. As one of the major shareholders of Baroque, the Group will continue to give full support to Baroque for all of its development plans. The Group will also strengthen the partnership with Baroque to further expand the apparel business in the China market.

Proposal for the privatization of the Company by offeror and proposed withdrawal of listing

On 17 April 2017, Muse Holdings-B Inc. (the "Offeror") requested the Board to put forward a proposal which, if approved and implemented, will result in the Company being privatized by the Offeror and the withdrawal of listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The proposal will be implemented by way of a scheme of arrangement under Section 86 of the Companies Law of the Cayman Islands (the "Scheme"). For further details of the Scheme, please refer to announcement dated 28 April 2017 jointly issued by the Company and the Offeror.

Outlook

The Company has been listed on the Stock Exchange for a full decade. Over these years, China's economy underwent a tremendous transformation. The era of rapid growth has come to an end. China has entered into a new norm stage where the economy grows at a slower pace. Although China will keep releasing its consumption potential in the future, and the emerging middle class will continue to drive the growth of retail markets, there has been a notable divergence. Traditional channels, brands and marketing models are now encountering acute challenges. New sources of growth will primarily derive from emerging channels, new media marketing and new customer interaction.

In essence, such a divergence is due to changing consumers, mainly in the following three aspects. First, consumers demand higher value for money. Second, consumers want more convenience. Third, consumers expect originality and uniqueness. They are not contented with only owning the products, but also look for spiritual satisfaction and consumption experience.

STATEMENT FROM CEO

The Group has focused on change in the hopes of adapting to the ever-changing channel models and consumer behaviour. Regretfully, the Group has not been able to achieve substantial progress for a critical transformation due to the lack of relevant expertise and resources, as well as the limitations from the existing businesses and vested interests. In particular, the footwear business is facing tough challenges due to changing patterns of foot traffic in retail channels and shifting style preferences of consumers. In the last two years, the footwear business had experienced continued decline in same store sales, resulting in substantial decline in revenue and significant erosion in the profit margin of segment results. In response to such critical circumstances, the Group must fundamentally transform the footwear business and find a new method to adapt to the changing environment in order to survive and thrive in the long term.

Immediate transformation is not only limited to the footwear business. The sportswear and apparel business also faces the same challenges resulting from changing consumer behaviour and evolving channels. In the past two years, the sportswear and apparel business enjoyed relatively healthy growth, on the back of changes in lifestyle of consumers, more participation in sports, and shifting preference from formal to athleisure. In the long run, the sportswear and apparel business also has to adapt to changes in consumer demand and behavioural patterns. From a channel perspective, the sportswear and apparel business still derives most of its business from department stores. Changes in the department store channel will certainly affect the market share of the Group's sportswear and apparel business. As a retail enterprise, it is imperative for the Group to undertake a major transform that is consumer-oriented and technology-driven under the theme of digitization. This is the only path for the Group to maintain long-term competitiveness and it is also time sensitive. Survival is at stake if we miss the critical window of opportunity.

Based on the above understanding, the Group has engaged a globally leading strategy consultancy to systemically diagnose and clustering its business operations, study industry trends, benchmark success cases and industry leaders, in an effort to reach consensus on the direction and path for future development before formulating action plans. In the mean time, we are actively looking to introduce external resources to prepare the Group with necessary technology, skills and manpower to enable a fundamental transformation.

It is worth noting that among its peers, the Group is in a better position to engage in a forward looking business restructuring and transformation. With the offline business, the Group has more than 20,000 brick-and-mortar stores nationwide, which enables us to fully engage consumers with on-site experience, personalized services, and immediate purchases. With years of experience in online sales, together with over ten million active users, the Group is well positioned to operate its businesses under the new retail model integrating both online and offline. We have an umbrella of brands, including company-owned, distribution and licensed brands, with strong brand recognition, loyalty and trust by a fairly large customer base. Furthermore, the vertically integrated model of the footwear business potentially will enable the Group to fundamentally overhaul the supply chain and enhance customer value with better products.

Last but not the least, we have more than 100,000 dedicated employees and a strong team of driven managers at various levels, by far the most critical resources for the Group. Over the past 25 years, the first-generation founders and associates have contributed their best effort to grow the Group from a small factory with just dozens of workers into a business with over RMB40 billion in annual revenue. Yet we are determined to transform and change. This is an opportunity for us to rekindle our entrepreneurial energy to restart a new venture, a next generation retailer driven by agility and innovation.

I hereby express my deepest gratitude to our shareholders for your understanding and support.

Sheng Baijiao
CEO and Executive Director

15 May 2017

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 28 February 2017, the Group recorded revenue of RMB41,706.5 million, an increase of 2.2% comparing with that of the year ended 29 February 2016. The Group recorded operating profit of RMB3,555.2 million, a decrease of 15.4% comparing with that of the year ended 29 February 2016. Excluding the impairment of goodwill and other intangible assets of the footwear business in this year and last year, operating profit decreased by 16.2% from last year. The profit attributable to the Company's equity holders during the year amounted to RMB2,403.4 million, a decrease of 18.1% comparing with that of the year ended 29 February 2016.

REVENUE

The Group's revenue increased by 2.2%, from RMB40,790.2 million for the year ended 29 February 2016 to RMB41,706.5 million for the year ended 28 February 2017. Revenue of the footwear business decreased by 10.0%, from RMB21,074.2 million for the year ended 29 February 2016 to RMB18,960.0 million for the year ended 28 February 2017. It was mainly due to the decline in same store sales. Revenue of the sportswear and apparel business increased by 15.4%, from RMB19,716.0 million for the year ended 29 February 2016 to RMB22,746.5 million for the year ended 28 February 2017. The growth of the sportswear and apparel business was mainly due to the same store sales growth and continued retail network expansion.

	Year ended				
	28 February 2017		29 February 2016		
	Revenue	**% of total**	Revenue	% of total	Growth rate
Footwear					
Company-owned brands	**16,674.8**	**40.0%**	18,652.4	45.7%	(10.6%)
Distribution brands	**2,065.0**	**5.0%**	2,105.8	5.2%	(1.9%)
International trade	**220.2**	**0.5%**	316.0	0.8%	(30.3%)
Sub-total	**18,960.0**	**45.5%**	21,074.2	51.7%	(10.0%)
Sportswear and apparel					
First-tier sportswear brands*	**19,345.8**	**46.4%**	16,945.3	41.5%	14.2%
Second-tier sportswear brands*	**2,152.6**	**5.1%**	1,954.2	4.8%	10.2%
Other sportswear and apparel business	**1,248.1**	**3.0%**	816.5	2.0%	52.9%
Sub-total	**22,746.5**	**54.5%**	19,716.0	48.3%	15.4%
Total	**41,706.5**	**100.0%**	40,790.2	100.0%	2.2%

Unit: RMB million

* *The first-tier sportswear brands include Nike and Adidas. The second-tier sportswear brands include PUMA, Converse, etc. The first-tier sportswear brands and second-tier sportswear brands are classified according to the Group's relative revenue.*

MANAGEMENT DISCUSSION AND ANALYSIS

PROFITABILITY

The Group's operating profit decreased by 15.4% to RMB3,555.2 million for the year ended 28 February 2017. Excluding the impairment of goodwill and other intangible assets of the footwear business in this year and last year, operating profit decreased by 16.2% from last year. The profit attributable to the Company's equity holders decreased by 18.1% to RMB2,403.4 million for the year ended 28 February 2017.

	Year ended					
	28 February 2017		29 February 2016		Growth rate	
	Footwear	**Sportswear and apparel**	Footwear	Sportswear and apparel	Footwear	Sportswear and apparel
Revenue	**18,960.0**	**22,746.5**	21,074.2	19,716.0	(10.0%)	15.4%
Cost of sales	**(6,269.5)**	**(12,781.4)**	(6,887.0)	(10,945.3)	(9.0%)	16.8%
Gross Profit	**12,690.5**	**9,965.1**	14,187.2	8,770.7	(10.5%)	13.6%
Gross profit margin	**66.9%**	**43.8%**	67.3%	44.5%		

Unit: RMB million

Cost of sales increased by 6.8% from RMB17,832.3 million for the year ended 29 February 2016 to RMB19,050.9 million for the year ended 28 February 2017. Gross profit in the Group's footwear business decreased by 10.5% to RMB12,690.5 million for the year ended 28 February 2017 from RMB14,187.2 million for the year ended 29 February 2016. Gross profit in the sportswear and apparel business increased by 13.6% to RMB9,965.1 million for the year ended 28 February 2017 from RMB8,770.7 million for the year ended 29 February 2016.

During the year, the gross profit margins of the footwear business and the sportswear and apparel business were 66.9% and 43.8% respectively. The gross profit margin of the footwear business decreased by 0.4 percentage points comparing with that of the year ended 29 February 2016, which was relatively stable. The gross profit margin of the sportswear and apparel business was lower than last year by 0.7 percentage points. This was mainly due to the fact that inventory was low last year resulting in a higher than normal level of gross profit margin. This year the inventory situation is being normalized.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses for the year ended 28 February 2017 amounted to RMB14,415.4 million (2016: RMB14,345.8 million), primarily consisting of concessionaire fees and rental expenses, sales personnel salaries and commissions, depreciation charges on retail outlets decorations, and advertising and promotional expenses. The selling and distribution expenses, as a percentage of revenue, was 34.6% (2016: 35.2%). Selling and distribution expenses of the footwear business, as a percentage of revenue, was higher than that of the year ended 29 February 2016. This was mainly due to the decline in same store sales and the significantly higher wages and benefits as a percentage of revenue. Selling and distribution expenses of the sportswear business, as a percentage of revenue, was fairly stable when compared with last year. This is mainly due to same store sales growth was enough to offset higher expenses.

General and administrative expenses for the year ended 28 February 2017 amounted to RMB4,061.5 million (2016: RMB3,516.0 million), primarily consisting of management and administrative personnel salaries, depreciation charges on office premises and office equipment, and business surtaxes. The general and administrative expenses, as a percentage of revenue, was 9.7% (2016: 8.6%). General and administrative expenses of the footwear business, as a percentage of revenue, was higher than last year. The main reason was that the sales of footwear business has declined, while the general and administrative expenses are normally fixed expenses. For sportswear and apparel business, the general and administrative expenses, as a percentage of revenue, was fairly stable when compared with that of last year.

Interest income decreased from RMB379.1 million for the year ended 29 February 2016 to RMB154.4 million for the year ended 28 February 2017. It is mainly due to the decrease in the Group's average balance of structured bank deposits (with higher interest rate earned) and corresponding deposit rates during the year, and the uplift of all structured bank deposits before year end.

Interest expense decreased from RMB45.9 million for the year ended 29 February 2016 to RMB0.1 million for the year ended 28 February 2017. It was mainly due to the repayment of all borrowings by the Group at the beginning of the year and there was no new borrowing afterwards.

During the year ended 28 February 2017, Renminbi depreciated against Hong Kong dollars and United States dollars, together with the fact that part of the Group's term deposits with initial terms over three months and bank balances and cash are denominated in Hong Kong dollars and United States dollars, the Group recorded net foreign exchange gains of RMB136.8 million (2016: net foreign exchange losses of RMB65.3 million) as a result.

Income tax expense for the year ended 28 February 2017 amounted to RMB1,596.9 million (2016: RMB1,596.1 million). The effective income tax rate increased by 4.7 percentage points to 39.8% for the year ended 28 February 2017 from 35.1% for the year ended 29 February 2016. This is because there was a large amount of impairment of goodwill for the footwear business, which is not deductible for tax purposes. Excluding the impairment of goodwill of the footwear business in this year and last year, the effective income tax rate increased by 5.1 percentage points from 28.2% for the year ended 29 February 2016 to 33.3% for the year ended 28 February 2017. The main reason is there was also a high level of dividends declared or distributed to foreign holding companies by the Company's subsidiaries in Mainland China during the year, which accordingly increased the payment of withholdings taxes. The income tax rate for the footwear business and the sportswear and apparel business of the Group in Mainland China is approximately 25%. The income tax rate for the Hong Kong business is 16.5%.

OTHER INCOME

Other income for the year ended 28 February 2017 amounted to RMB497.6 million (2016: RMB484.5 million) consists mainly of government incentives and rental income.

CAPITAL EXPENDITURE

The Group's capital expenditures primarily comprised of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. For the year ended 28 February 2017, capital expenditure was RMB1,341.1 million (2016: RMB1,360.5 million).

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a strong and healthy balance sheet. As at 28 February 2017, the net working capital of the Group was RMB16,906.0 million, representing an increase of 14.6% as compared with 29 February 2016. As at 28 February 2017, the Group's current ratio was 4.4 times (2016: 3.6 times) (Current ratio is calculated by using the following formula: Current Assets/Current Liabilities).

Net cash generated from operations decreased by RMB354.0 million to RMB6,418.1 million for the year ended 28 February 2017 from RMB6,772.1 million for the year ended 29 February 2016.

Net cash used in investing activities for the year ended 28 February 2017 was RMB1,556.4 million (2016: net cash generated of RMB190.1 million). During the year, the Group invested RMB4,949.3 million on net deposit of term deposits with initial terms of over three months, RMB1,341.1 million on payments and deposits for purchases of property, plant and equipment (including retail outlets' decorations) and land use rights, RMB181.4 million on acquisition of available-for-sale financial assets, and RMB111.7 million on loan to an associate, partly offset by net uplift of structured bank deposits of RMB4,444.0 million, proceeds from partial disposal of interest in an associate of RMB333.8 million and interest received of RMB222.2 million.

During the year, net cash used in financing activities was RMB2,511.0 million (2016: RMB4,859.2 million), mainly attributable to the payments of the 2015/16 final dividend of RMB506.1 million and 2016/17 interim dividend of RMB1,012.1 million, repayments of borrowings of RMB861.3 million, and acquisition of equity interest of a subsidiary from non-controlling shareholders of RMB134.0 million by the Group during the year.

As at 28 February 2017, the Group held bank balances and cash and term deposits with initial terms of over three months totaling RMB8,596.2 million and had no borrowings. As at 29 February 2016, the Group held bank balances and cash, structured bank deposits and term deposits with initial terms of over three months totaling RMB7,781.5 million, after netting off the short-term borrowings of RMB860.6 million, it was in a net cash position of RMB6,920.9 million.

SHORT-TERM BORROWINGS

As at 28 February 2017, the Group did not have any short-term borrowings (2016: RMB860.6 million) and the Group's utilized banking facilities amounted to RMB39.7 million (2016: RMB596.2 million).

Particulars of short-term borrowings of the Group as at 28 February 2017 are set out in note 28 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 28 February 2017, no assets were pledged as security for banking facilities available to the Group (2016: structured bank deposits of RMB524.0 million were pledged for other short-term borrowings of the same amount).

CONTINGENT LIABILITIES

As at 28 February 2017, the Group had no material contingent liabilities.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Details of the exposure to fluctuations in exchanges rates of the Group as at 28 February 2017 are set out in note 3.1(a) to the consolidated financial statements.

SUBSEQUENT EVENTS

On 17 April 2017, Muse Holdings-B Inc. (the "Offeror") requested the Board to put forward a proposal which, if approved and implemented, will result in the Company being privatized by the Offeror and the withdrawal of listing of the Company's shares on The Stock Exchange of Hong Kong Limited. The proposal will be implemented by way of a scheme of arrangement under Section 86 of the Companies Law of the Cayman Islands (the "Scheme"). For further details of the Scheme, please refer to announcement dated 28 April 2017 jointly issued by the Company and the Offeror.

HUMAN RESOURCES

As at 28 February 2017, the Group had a total of 111,737 employees (2016: 119,061 employees). For the year ended 28 February 2017, total staff cost was RMB7,419.1 million (2016: RMB6,979.0 million), accounting for 17.8% (2016: 17.1%) of the revenue of the Group. The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share awards may be granted to eligible employees based on the Group's and individual's performance. The Group also allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

REPORT OF THE DIRECTORS

The board of directors of the Company (the "Board") takes pleasure in submitting their annual report together with the audited financial statements for the year ended 28 February 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holdings. The principal activities and other particulars of the principal subsidiaries are set out in note 38 to the consolidated financial statements.

The analysis of the Group's performance by reportable segments during the year is set out in note 5 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Group and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the "Statement from CEO" and "Management Discussion and Analysis" sections, respectively on pages 8 to 19 and on pages 20 to 27 of this annual report.

A description of the possible risks and uncertainties that the Company may be facing, and the future development of the Group's business are discussed in the "Statement from CEO" on pages 8 to 19 of this annual report. Additionally, the financial risk management objectives and policies of the Company can be found in note 3 to the consolidated financial statements.

These discussions form part of this Directors' Report.

RESULTS AND DIVIDENDS

The profit of the Group for the year ended 28 February 2017 and the financial position of the Group and of the Company as at that date are set out in the consolidated financial statements on pages 70 to 152.

The Board declared on 24 October 2016 an interim dividend for the year ended 28 February 2017 of RMB12.0 cents per ordinary share, totaling RMB1,012.1 million. The interim dividend was paid on 6 December 2016.

The Board recommended the payment of a final dividend for the year ended 28 February 2017 of RMB6.0 cents (equivalent to HK6.70 cents) per ordinary share, totaling RMB506.1 million.

The translation of RMB into Hong Kong dollars is made for illustration purpose only, at the rate of RMB1 = HK$1.1170. The actual translation rate for the purpose of dividend payment in Hong Kong dollars will be the offshore exchange rate (Buying TT) of RMB against Hong Kong dollars as quoted by the Hong Kong Association of Banks on 26 July 2017, being the date on which the dividend is proposed to be approved by the shareholders of the Company at its annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed as follows:

(a) For the purpose of ascertaining shareholder's eligibility to attend and vote at the annual general meeting to be held on Wednesday, 26 July 2017, the register of members of the Company will be closed from Friday, 21 July 2017 to Wednesday, 26 July 2017, both days inclusive. To be eligible to attend and vote at the annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited no later than 4:30 p.m. on Thursday, 20 July 2017. Reference is made to the Company's announcement dated 28 April 2017 in relation to the privatisation of the Company by way of a scheme of arrangement (the "Scheme"). If the Scheme becomes effective before the holding of the annual general meeting, all the shares held by the Scheme Shareholders (as definded in the above mentioned announcement) will be cancelled by operation of the Scheme and as a matter of Cayman Islands law and such Scheme Shareholders will no longer constitute registered shareholders on the register of members of the Company. Accordingly, none of the Scheme Shareholders will be eligible to attend and vote at the annual general meeting.

(b) The final dividend will be payable on or about Wednesday, 16 August 2017 to the shareholders whose names appear on the register of members of the Company on Friday, 4 August 2017. For the purpose of ascertaining shareholder's eligibility for the final dividend, the register of members of the Company will be closed from Wednesday, 2 August 2017 to Friday, 4 August 2017, both days inclusive. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with Computershare Hong Kong Investor Services Limited no later than 4:30 p.m. on Tuesday, 1 August 2017.

The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 28 February 2017, distributable reserves of the Company amounted to RMB12,328.0 million (2016: RMB11,872.6 million). The movements in distributable reserves during the year are set out in note 37 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for less than 5% of the Group's total sales for the year.

Purchases from the Group's five largest suppliers accounted for approximately 61.4% of the Group's total purchases for the year and purchases from the largest supplier included therein accounted for approximately 28.6% of the Group's purchases.

During the year, none of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major suppliers or customers.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of RMB1,247.0 million (2016: RMB1,333.8 million). Details of the movements in property, plant and equipment are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

There was no change in the total number or structure of shares of the Company as a result of bonus issue, conversion from reserves, placing, allotment of new shares or any other reasons during the year.

During the year ended 28 February 2017, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

Particulars of share capital and share premium of the Company during the year are set out in notes 29 and 37 respectively, to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands where the Company is incorporated.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year and up to the date of this report were:

Chairman

Mr. Tang Yiu *(Non-executive Director)*

Executive Directors

Mr. Sheng Baijiao *(Chief Executive Officer)*
Mr. Tang King Loy
Mr. Sheng Fang
Mr. Yu Wu

Non-executive Directors

Mr. Tang Wai Lam
Ms. Hu Xiaoling

Independent Non-executive Directors

Mr. Ho Kwok Wah, George
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi
Mr. Gao Yu

In accordance with article 87 of the Company's Articles of Association, Mr. Sheng Fang (an Executive Director), Ms. Hu Xiaoling (a Non-executive Director) and Mr. Gao Yu (an Independent Non-executive Director) shall retire from office by rotation at the forthcoming annual general meeting. Mr. Sheng Fang, Ms. Hu Xiaoling and Mr. Gao Yu, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

The biographical details of the Directors and senior management as at the date of this report are set out in this report on pages 60 to 63.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years subject to termination before expiry by either party giving not less than three months' notice in writing to the other. The emoluments specified in the service contract appointing an Executive Director consist of basic salary (which is subject to annual review of the Board and the Remuneration Committee), mandatory retirement fund contributed by the Group and a discretionary bonus as decided by the Board and the Remuneration Committee at their discretion. Emoluments are determined with reference to the job responsibility of the Executive Director, the prevailing market rate for his position in the Group, together with a discretionary bonus based on his performance.

REPORT OF THE DIRECTORS

Each of the Non-executive and Independent Non-executive Directors has entered into a letter of appointment with the Company on for an initial term of one year and shall continue thereafter for successive period of one year subject to a maximum term of three years unless terminated by either party giving at least one month's notice in writing. No fees are payable to Non-executive Directors under the appointment letters. The emoluments payable to an Independent Non-executive Director are determined with reference to his job responsibility and the prevailing market rate for his position.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

There was no director's service contract that was entered into between the Company or its subsidiaries and any of the Directors before 31 January 2004 and except from complying with the requirements of shareholder's approval under Rules 13.68 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended 28 February 2017.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 28 February 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and 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 under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

(i) Interests in issued shares of the Company

Name of Director	Capacity/Nature of interest	Number of Shares *(note 1)*	Approximate percentage of interest in the Company
Mr. Tang Yiu	Interest in controlled corporation *(note 2)*	1,751,125,000 (L)	20.76%
Mr. Sheng Baijiao	Founder of a discretionary trust *(note 3)*	345,237,000 (L)	4.09%
	Interest in controlled corporation *(note 4)*	75,000,000 (L)	0.89%
Mr. Sheng Fang	Founder of a discretionary trust *(note 5)*	38,975,000 (L)	0.46%
Mr. Yu Wu	Founder of a discretionary trust *(note 6)*	185,625,000 (L)	2.20%
Mr. Tang Wai Lam	Interest in controlled corporation *(note 7)*	1,752,519,000 (L)	20.78%

Notes:

(1) The letter "L" denotes a long position in shares.

(2) These ordinary shares of HK$0.01 each in the share capital of Company ("Shares") were held by a company, which was owned as to 54.33% by another company wholly owned by Mr. Tang Yiu.

(3) Mr. Sheng Baijiao was interested in the Shares through a trust, of which he is a founder and a beneficiary.

(4) These Shares were held by a company wholly owned by Mr. Sheng Baijiao.

(5) Mr. Sheng Fang was interested in the Shares through a trust, of which he is a founder and a beneficiary.

(6) Mr. Yu Wu was interested in the Shares through a trust, of which he is a founder and a beneficiary.

(7) Mr. Tang Wai Lam was deemed to be interested in 1,752,519,000 Shares, comprising (i) 1,751,125,000 Shares directly held by a company, which was owned as to 45.67% by another company wholly owned by Mr. Tang Wai Lam; (ii) 757,000 Shares held by a company, of which Mr. Tang Wai Lam was beneficially interested in 33.33% of its issued share capital; and (iii) 637,000 Shares held by a company, which was owned as to 33.33% by another company wholly owned by Mr. Tang Wai Lam.

(ii) Interests in underlying shares of the Company

None of the Directors of the Company has been granted options under the Company's share option scheme, details of which are set out in the section "Share option scheme" below.

Apart from the foregoing, none of the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code as at 28 February 2017.

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

As at 28 February 2017, the interests or short positions of the persons, other than Directors and chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of shareholder	Capacity/ Nature of Interest	Number of Shares *(note 1)*	Approximate percentage of interest in the Company
Credit Suisse Trust Limited	Trustee	1,343,102,500 (L)	15.92%
Merry Century Investments Limited	Beneficial interest	1,751,125,000 (L)	20.76%
Dazzle Best Limited	Interest in controlled corporation *(note 2)*	1,751,125,000 (L)	20.76%
Jing Yuan Holdings Limited	Interest in controlled corporation *(note 2)*	1,751,125,000 (L)	20.76%

REPORT OF THE DIRECTORS

Notes:

(1) The letter "L" denotes a long position in the Shares.

(2) These Shares were held by Merry Century Investments Limited ("Merry Century"). Dazzle Best Limited was interested in 54.33% of the issued share capital of Merry Century. Jing Yuan Holdings Limited was interested in 45.67% of the issued share capital of Merry Century.

Save as disclosed above, no other parties (other than Directors and chief executive of the Company) has disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of SFO or were recorded in the register kept by the Company under section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 28 February 2017.

SHARE OPTION SCHEME

The Company adopted a share option scheme pursuant to a shareholders resolution passed on 27 April 2007 (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide an incentive for Qualified Participants (defined below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders of the Company and to retain and attract calibers and working partners whose contributions are or may be beneficial to the growth and development of the Group.

Pursuant to the Share Option Scheme, the Board may at its discretion grant options to (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive director (including independent non-executive director) of the Company, any member of the Group or any Invested Entity ((i) and (ii) collectively referred to as "Eligible Employees"); (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, advisor, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group (collectively referred to as "Qualified Participants").

The maximum number of shares of the Company in respect of which options may be granted under the Share Option Scheme or any other share option schemes as may be adopted by the Company shall not in aggregate exceed the number of shares that shall represent 10% of the total number of Shares in issue as of the date on which the shares of the Company first commenced trading on the Stock Exchange, (i.e. 23 May 2007, the "Listing Date") (equivalent to 823,190,000 shares), unless such scheme mandate limit is renewed by shareholders of the Company in a general meeting. The Share Option Scheme was valid and effective for 10 years from the Listing Date. Accordingly, the Share Option Scheme expired on 22 May 2017.

No options have been granted under the Share Option Scheme by the Group since its adoption and up to 28 February 2017.

SHARE AWARD SCHEME

On 26 May 2014, the Company adopted a share award scheme (the "Share Award Scheme") to recognize and motivate the contribution of certain members of management of the Group and to provide incentives and help the Group in retaining its existing members of management and to provide them with a direct economic interest in attaining the long-term business objectives of the Group.

Details of the Share Award Scheme are set out in the Company's announcement issued on 26 May 2014.

On 9 June 2014, the Group has granted 253,000,000 awarded shares to the selected members of management of the Group (the "Selected Participants"), which are to be vested after the Selected Participants having completed a period of services in the Group of 10 years from the date of grant. The awarded share will be transferred to the Selected Participants at nil consideration upon vested.

During the year ended 28 February 2017, the Board approved to make certain amendments to the terms of the Share Award Scheme in order to enhance the effectiveness of the scheme. Effective 24 February 2017, the vesting period of the awarded shares was being modified such that 10% of all the awarded shares granted shall become vested on 1 March 2017 and thereafter 10% each of the awarded shares granted shall become vested at each of the nine consecutive anniversaries of the first vesting date.

During the year ended 28 February 2017, 10,060,000 (2016: 7,960,000) awarded shares have been lapsed and 10,060,000 (2016: 7,960,000) awarded shares have been granted by the Group. As at 28 February 2017 and 29 February 2016, the outstanding number of awarded shares granted was 253,000,000.

Save as disclosed above, at no time during the year was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Saved for the Share Option Scheme and Share Award Scheme as set out above, the Company has not entered into any equity-linked agreements during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed minimum public float under the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed, no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director of the Company or an entity connected with a Director had a material interest, either directly or indirectly, were subsisting during or at the end of the year ended 28 February 2017.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, each of the Directors has confirmed that he/she does not have any interest in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly with the Group's business.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his or her duty or otherwise in relation thereto.

SHORT-TERM BORROWINGS

Particulars of short-term borrowings of the Group as at 28 February 2017 are set out in note 28 to the consolidated financial statements.

CONNECTED TRANSACTION

During the year ended 28 February 2017, the Group had the following connected transaction which is subject to the reporting and announcement requirements but is exempted from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules. Details of the transaction are as follows:

REPORT OF THE DIRECTORS

On 23 August 2016, each of Big Unity Limited ("Big Unity"), an indirect wholly-owned subsidiary of the Company, and Hero Gain Holdings Limited ("Hero Gain"), entered into a limited partnership agreement, respectively, on the same terms, with Fengshion Capital Investment Fund GP, LP, the general partner of Fengshion Capital Investment Fund, LP (the "Fund"). Each of Big Unity and Hero Gain has committed to invest US$60.0 million (approximately RMB406.5 million) in the Fund, respectively.

Each of Mr. Sheng Baijiao, Mr. Sheng Fang and Mr. Yu Wu is an executive director of the Company and thus a connected person of the Company. As Mr. Sheng Baijiao, Mr. Sheng Fang and Mr. Yu Wu collectively hold more than 30.0% of the issued shares of Hero Gain, Hero Gain is a connected person of the Company. As Big Unity and Hero Gain entered into the limited partnership agreements on the same date to invest in the Fund as limited partners, Big Unity's investment in the Fund constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Details of the transaction have been disclosed in the Company's announcement dated 23 August 2016.

The Company did not conduct any continuing connected transaction for the year ended 28 February 2017.

Save as disclosed above, none of the related party transactions set out in note 36 to the consolidated financial statements constitutes connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out as follows:

	Year ended 28 February 2017	Year ended 29 February 2016	Year ended 28 February 2015	Fourteen months ended 28 February 2014	Year ended 31 December 2012
	RMB million	*RMB million*	*RMB million*	*RMB million (note)*	*RMB million*
Revenue	**41,706.5**	40,790.2	40,008.1	43,067.2	32,859.0
Gross profit	**22,655.6**	22,957.9	23,010.1	24,583.1	18,598.2
Gross profit margin	**54.32%**	56.28%	57.51%	57.08%	56.60%
Operating profit	**3,555.2**	4,201.5	6,193.7	6,634.0	5,402.9
Operating profit margin	**8.52%**	10.30%	15.48%	15.40%	16.44%
Profit attributable to equity holders of the Company	**2,403.4**	2,934.1	4,763.9	5,159.1	4,352.3
Structured bank deposits, term deposits, bank balances and cash	**8,596.2**	7,781.5	8,916.0	10,233.0	8,525.4
Short-term borrowings	**–**	860.6	2,658.2	2,360.1	2,176.3
Total assets	**31,745.6**	31,054.8	32,536.5	32,393.9	28,602.8
Total liabilities	**5,122.0**	5,768.8	7,414.4	6,058.6	6,039.4
Total equity	**26,623.6**	25,286.0	25,122.1	26,335.3	22,563.4

Note:

Pursuant to a special resolution passed by the Board on 8 September 2013, the financial year end date of the Company was changed from 31 December to 28 February (or 29 February in a leap year) with effect from the financial period ended 28 February 2014.

REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

Particulars of the retirement schemes of the Group are set out in note 12 to the consolidated financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules, and considers all the Independent Non-executive Directors to be independent.

AUDITOR

PricewaterhouseCoopers retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as the auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Tang Yiu
Chairman

Hong Kong, 15 May 2017

CORPORATE GOVERNANCE REPORT

The board of directors of the Company (the "Board") is committed to upholding a high standard of corporate governance and business ethics in the Company 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, comply with increasingly stringent regulatory requirements and fulfill its commitment to excellence in corporate governance.

The Company had complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 28 February 2017, except for the deviation from code provision A.6.7 (attendance of Non-executive Directors in general meetings) of the CG Code. Mr. Tang Yiu (Non-executive Director), Ms. Hu Xiaoling (Non-executive Director), Mr. Chan Yu Ling, Abraham (Independent Non-executive Director), Dr. Xue Qiuzhi (Independent Non-executive Director) and Mr. Gao Yu (Independent Non-executive Director) were unable to attend the annual general meeting of the Company held on 26 July 2016 due to other personal commitments.

BOARD

The Board is committed to providing effective and responsible leadership for the Company. The Directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders.

The Board comprises four Executive Directors, three Non-executive Directors and four Independent Non-executive Directors. The Board has established three Board committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee different areas of the Company's affairs. The composition of the Board and the Board committees are given below and their respective responsibilities and work performed during the year are discussed in this report.

Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors			
Mr. Sheng Baijiao *(Chief Executive Officer)*	N/A	✓	✓
Mr. Tang King Loy	N/A	N/A	N/A
Mr. Sheng Fang	N/A	N/A	N/A
Mr. Yu Wu	N/A	N/A	N/A
Non-executive Directors			
Mr. Tang Yiu *(Chairman)*	N/A	N/A	N/A
Mr. Tang Wai Lam	N/A	N/A	N/A
Ms. Hu Xiaoling	N/A	N/A	N/A
Independent Non-executive Directors			
Mr. Ho Kwok Wah, George	✓	N/A	N/A
Mr. Chan Yu Ling, Abraham	✓	✓	✓
Dr. Xue Qiuzhi	✓	✓	✓
Mr. Gao Yu	✓	✓	N/A

CORPORATE GOVERNANCE REPORT

The Board sets the Group's overall objectives and strategies, monitors and evaluates its operating and financial performance and reviews the corporate governance standard of the Group. It also decides on matters such as annual and interim results, major transactions, director appointments or re-appointments, dividend and accounting policies. The Board has delegated the authority and responsibility for implementing its business strategies and managing the daily operations of the Group's businesses to the Executive Directors and members of senior management. The Company maintains appropriate directors' and officers' liabilities insurance.

During the year, the Board convened a total of seven Board meetings based on the needs of the operation and business development of the Company. Details of attendance of the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee meetings are as follows:

	Meetings attended/held			
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Mr. Tang Yiu# *(Chairman)*	6/7	N/A	N/A	N/A
Mr. Sheng Baijiao *(Chief Executive Officer)*	7/7	N/A	2/2	1/1
Mr. Tang King Loy	7/7	N/A	N/A	N/A
Mr. Sheng Fang	5/7	N/A	N/A	N/A
Mr. Yu Wu	6/7	N/A	N/A	N/A
Mr. Tang Wai Lam#	7/7	N/A	N/A	N/A
Ms. Hu Xiaoling#	6/7	N/A	N/A	N/A
Mr. Ho Kwok Wah, George@	7/7	4/4	N/A	N/A
Mr. Chan Yu Ling, Abraham@	7/7	4/4	2/2	1/1
Dr. Xue Qiuzhi@	7/7	4/4	2/2	1/1
Mr. Gao Yu@	7/7	4/4	2/2	N/A

Non-executive Directors
@ Independent Non-executive Directors

The Board members have no financial, business, family or other material/relevant relationships with each other save that Mr. Tang Yiu is the father of Mr. Tang King Loy, Mr. Tang Wai Lam is a cousin of Mr. Tang Yiu and an uncle of Mr. Tang King Loy and Mr. Sheng Baijiao is an uncle of Mr. Sheng Fang. In the Board's opinion, this relationship does not affect the Directors' independent judgment and integrity in executing their roles and responsibilities. The Non-executive Directors and the Independent Non-executive Directors bring a variety of experience and expertise to the Company.

Each of the Independent Non-executive Directors has confirmed with the Company in writing his independence from the Company in accordance with Rule 3.13 of the Listing Rules. On this basis, the Company considers all Independent Non-executive Directors to be independent.

Biographical details of the Directors and senior management of the Company as at the date of this report are set out on pages 60 to 63 of this annual report.

CORPORATE GOVERNANCE REPORT

Given the composition of the Board and the skills, knowledge and expertise that each Director brings to bear in its deliberations, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Company.

DIRECTORS' TRAINING

Upon appointment to the Board, Directors receive a package of orientation materials on the Group and are provided with a comprehensive introduction to the businesses of the Group by senior executives.

As a matter of continuing professional development training, the Company provides training and briefing sessions to Directors during the year ended 28 February 2017, to ensure that they are apprised of the latest development regarding the Listing Rules and other applicable statutory requirements and to refresh their knowledge and skills in relation to their contribution to the Board. In addition, the Directors have been developing and refreshing their skills and knowledge by studying relevant materials from time to time concerning directors of listed companies.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Nomination Committee took into consideration criteria such as difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of service and other qualities of the members of the Board when considering the appointment of new Directors. Currently, all Directors are appointed for a specific term of three years.

In accordance with article 87 of the Company's Articles of Association, Mr. Sheng Fang (an Executive Director), Ms. Hu Xiaoling (a Non-executive Directors) and Mr. Gao Yu (an Independent Non-executive Director) shall retire from office by rotation at the forthcoming annual general meeting. Mr. Sheng Fang, Ms. Hu Xiaoling and Mr. Gao Yu, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and the Chief Executive Officer of the Company are Mr. Tang Yiu and Mr. Sheng Baijiao respectively. The roles of the Chairman and Chief Executive Officer are segregated to assume a balance of authority and power. The Chairman is responsible for the leadership and effective running of the Board, while the Chief Executive Officer is delegated with the authorities to manage the business of the Group in all aspects effectively. The reasonable division of work under the laws ensures a definite division between power and obligations with clear-cut and efficient decisions and implementations by the Board and the management.

AUDIT COMMITTEE

The Company established the Audit committee on 27 April 2007 with written terms of reference. The Audit Committee comprises four Independent Non-executive Directors, namely, Mr. Ho Kwok Wah, George, Mr. Chan Yu Ling, Abraham, Dr. Xue Qiuzhi and Mr. Gao Yu. The chairman of the Audit Committee is Mr. Ho Kwok Wah, George who has a professional qualification in accountancy.

The primary responsibilities of the Audit Committee include (but without limitation) assisting the Board to provide an independent review and supervision of the Group's financial reporting, to ensure the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, and to perform other duties and responsibilities as delegated by the Board.

The Audit Committee met four times during the year ended 28 February 2017. Major work completed by the Audit Committee during the year includes:

– reviewing the Group's annual report, interim financial information and annual financial statements;

– reviewing accounting policies adopted by the Group and issues related to accounting practice;

– reviewing the external auditor's qualifications, independence and performance;

– reviewing the external auditor's management letter and the management's response;

– assisting the Board to evaluate on the effectiveness of financial reporting procedures and internal control system; and

– advising on material event or drawing the attention of the management on related risks.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 27 April 2007 with written terms of reference. The Remuneration Committee has four members comprising Mr. Chan Yu Ling, Abraham, Mr. Sheng Baijiao, Dr. Xue Qiuzhi and Mr. Gao Yu, three of whom are Independent Non-executive Directors. The chairman of the Remuneration Committee is Mr. Chan Yu Ling, Abraham.

The primary responsibilities of the Remuneration Committee include (but without limitation):

– making recommendations to the Board on the remuneration policy and structure for Directors and senior management and on the establishment of a formal and transparent procedure for developing such policies;

– determining the terms of specific remuneration package of the Directors and senior management;

– reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time; and

– considering and approving the grant of share options and awarded shares to eligible participants pursuant to the Share Option Scheme and Share Award Scheme upon authorization by the Board.

The Remuneration Committee held two meetings during the year ended 28 February 2017. The Remuneration Committee reviewed the Group's remuneration policy for the year ended 28 February 2017 at the meetings.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 17 March 2012 with written terms of reference. The Nomination Committee has three members comprising Dr. Xue Qiuzhi, Mr. Sheng Baijiao and Mr. Chan Yu Ling, Abraham, two of whom are Independent Non-executive Directors. The chairman of the Nomination Committee is Dr. Xue Qiuzhi.

The Nomination Committee held one meeting during the year ended 28 February 2017. The primary responsibilities of the Nomination Committee include (but without limitation) considering and recommending to the Board suitably qualified persons to become members of the Board, and reviewing the structure, size and composition of the Board on a regular basis and as and when required.

BOARD DIVERSITY

In order to achieve a diversity of perspectives among members of the Board, it is the board diversity policy of the Company to consider a number of factors when deciding on appointments to the Board and the continuation of those appointments to the Board. The Nomination Committee will carry out the selection process in accordance with the board diversity policy of the Company and by making reference to a range of diversity perspectives, including but not limited to difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of service and other qualities of the members of the Board.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for each financial period to ensure that they give a true and fair view of the financial position of the Company and the Group, and of the Group's financial performance and cash flows for that period. The Directors were not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently, and that judgments and estimates made are prudent and reasonable.

The statement by the auditor of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 64 and 69.

COMPANY SECRETARY

Mr. Leung Kam Kwan is the Company Secretary of the Company. He is a full time employee of the Company who has day-to-day knowledge of the Company and is responsible for advising the Board on corporate governance matters.

In response to specific enquiries made, the Company Secretary confirmed that he has complied with all the required qualifications, experience and training requirements of the Listing Rules.

INTERNAL CONTROL AND RISK MANAGEMENT

The Company is committed to continuously improving the risk management system, including structure, process and culture, through the enhancement of risk management ability, to ensure long-term growth and sustainable development of the Company's business.

The Company has established a risk management system which sets out the roles and responsibilities of each relevant party as well as the relevant risk management policies and processes to identify, evaluate and manage various risks of the Group.

The risk management framework of the Company has "three lines of defence" at the business units level, the audit committee and risk management team under the Board and the Board of Directors. Through these three lines of defence, the Company has rendered the risk management throughout the Group.

The Company's business units identify the risks that the Company is currently exposed to one by one through a variety of risk identification techniques. The business units and the risk management team shall analyze and evaluate those risks, and develop risk response plans. The risk management team tracks and evaluates those risk response plans to ensure risk control activities are appropriate.

The relevant concepts and procedures of such framework are set out in the Risk Management Manual of the Company, and the Manual has been assigned to the various business units in a bid to build a comprehensive risk management environment for the Company. The Company has developed a standardized and improved procedure management system and authorisation so as to ensure the accuracy and completeness of the Company's accounting records, and ensure financial statements are prepared reliably and timely.

Through reviewing by the internal control/audit team and risk management team, the Group will achieve the following three major objectives:

- The Company shall supervise and improve the operational and management principles and policies of the Company and its financial management system and financial disciplines shall be implemented thoroughly in the Group. Besides, the Company shall keep improving its operation and management through examining the effectiveness of the operation of the risk management and internal control system of the Group, so as to ensure the achievement of the organization goals;

- The Company shall correct errors and take preventive actions against weakness, investigate into and deal with irregularities to protect the safety and integrity of the Group's assets; and

- The Company shall put forward proposals to rationalize its operation and management policies, principles and financial management system, so as to strengthen the management standard and avoid operational risks, improve economic efficiency in an effort to serve the Company to achieve its strategic objectives.

The Board is responsible for exercising continuous supervision over the risk management and internal control system, and is responsible to conduct annual review on the effectiveness of the Company's and its subsidiaries' risk management and internal control systems. The Board considers that the purpose of establishing an internal control system is to manage the risks rather than to eliminate the same, and is to minimize risks reasonably rather than to ensure absolutely no fatal errors, losses or fraud will occur. The Board, with the assistance from the internal control/audit team, shall regularly review the routines, procedures, expenses and internal controls (including financial monitoring, operational monitoring and compliance monitoring and risk management functions) for all business units and its subsidiaries.

The Board or senior management may also request the internal control/audit team to review the specific scope of concern. The Group's risk management team is responsible for reviewing the effectiveness of the risk management and internal control system of the Group. Based on the risk assessment, the risk management team and internal control/audit team shall develop an annual review plan to review the various areas of the Group, including the information technology system, treasury management and risk management functions.

The internal control/audit team shall, in accordance with the Company's system and guidelines on internal audit, conduct an initial check on soundness and a preliminary evaluation on the units under auditing, followed by compliance testing, substantive testing and comprehensive evaluation. The internal control/audit team shall conduct a return visit to the risks identified in the internal control, and conduct subsequent check on the audit proposal adopted. It also examines its written explanations and replies on corrective measures not adopted for the account of cost saving or other factors so as to prevent any omission. During the year ended 28 February 2017, the internal control/audit team did not identify any significant deficiency in internal control.

Base on the framework of risk management and internal control of the Company, the risk management team and internal control/audit team make annual review to the risk management and internal control systems of the Group for the year ended 28 February 2017 and reports the results of the review to the Board every half year and puts forward rectification proposals thereof.

The Company has established internal control system of material information, process and internal control measures for addressing and disseminating price-sensitive information. The Company has established systems relating to information disclosure, registration and management system of inside information and prevention of misuse and dissemination of sensitive information. The Company has established comprehensive procedures and internal control measures covering from report, identification, audit and disclosures to the final announcement of inside information, for the purpose of inside information processing and dissemination. Meanwhile, the Company carried out information disclosure in a true, accurate, complete, and timely manner pursuant to the laws and regulations, so as to ensure equal opportunities of all investors to timely access relevant information of the Company.

The review confirms the adequacy of the Company's resources, staff qualifications and experience in the accounting, internal audit and financial reporting functions, as well as the adequacy of training courses received by employees and of the relevant budget. The Board is of the view that the Group currently has sufficient and effective risk management and internal control review systems, however, it shall conduct regular review to enhance and protect the operation of risk management and internal control system.

REMUNERATION POLICY

The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus may be granted to eligible employees based on the Group's and individual's performance.

During the year, details of benefits and interests of Directors, Chief Executive Officer and five highest paid individuals, and senior management remuneration by band for the year are set out in note 13 to the consolidated financial statements.

AUDITOR'S REMUNERATION

The remuneration paid/payable to the Company's independent auditor, PricewaterhouseCoopers, and their affiliated firms, for its statutory audit, audit-related and non-audit services for the year ended 28 February 2017 were RMB12.4 million, RMB2.0 million and RMB2.3 million respectively.

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions of the Directors. Following specific enquiry, each of the Directors has confirmed compliance with the required standard set out in the Model Code throughout the year ended 28 February 2017.

CORPORATE SOCIAL RESPONSIBILITY

The Group is committed to being a successful and responsible corporate citizen. As such, the Group are committed not only to delivering quality products and service to customers of the Group and strong and sustained financial performance to shareholders of the Group. The Group are also committed to contributing into the communities where the Group conduct business. The Group aim to achieve this by, amongst others, ensuring that the workers producing products of the Group are treated with fairness and respect; and at all times achieving the goals of the Group through environmentally friendly means.

ENVIRONMENT AND COMPLIANCE WITH LAWS

The Group is committed to minimising the impact on the environment from our business activities and the details of such efforts are set out in the Environmental, Social and Governance Report in this annual report. As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects.

MATERIAL CHANGE IN THE ARTICLES OF ASSOCIATION

During the year ended 28 February 2017, there was no material change in the Articles of Association of the Company.

INVESTOR AND SHAREHOLDER RELATIONS

The Board is dedicated to maintain an on-going dialogue with the investors and the shareholders of the Company. Information is communicated to the investors and the shareholders mainly through the Company's financial reports (interim and annual reports), general meetings, as well as by making available all the disclosures submitted to The Stock Exchange of Hong Kong Limited and its corporate communications and other corporate publications on the Company's website. Investors and analysts briefings and roadshows, and press conferences are conducted on a regular basis in order to facilitate communication between the Company, the investors and the shareholders. The Board strives to ensure effective and timely dissemination of information to the investors and the shareholders at all times and reviews regularly the above arrangements to ensure its effectiveness.

During the year ended 28 February 2017, all Directors attended the annual general meeting of the Company held on 26 July 2016 with the exception of Mr. Tang Yiu, Mr. Sheng Fang, Mr. Yu Wu, Ms. Hu Xiaoling, Mr. Chan Yu Ling, Abraham, Dr. Xue Qiuzhi and Mr. Gao Yu.

SHAREHOLDERS' RIGHTS

The Company aims to, via its corporate governance structure, enable all its shareholders an equal opportunity to exercise their rights in an informed manner and allow all shareholders to engage actively with the Company.

Under the Company's Articles of Association, the Shareholder Communication Policy and other relevant internal procedures of the Company, the shareholders of the Company enjoy, among others, the following rights:

1. Convening Extraordinary General Meetings

Any one or more shareholders of the Company holding not less than one-tenth of the issued share capital of the Company carrying the right of voting at general meetings may require an extraordinary general meeting by a written requisition to the Board or the Company Secretary. The Board shall then hold a general meeting within two months after receipt of such requisition.

2. Participation at General Meetings

The Company encourages shareholders to participate in general meetings, either in person or via proxies, to exercise their rights. The general meetings provide important opportunities for shareholders to express their views to the Board and management. The Company provides details of the general meetings to the shareholders in a notice prior to the meeting in compliance with the Articles of Association of the Company and the Listing Rules. Shareholders are encouraged to ask questions about or comment on the results, operations, strategy and/or management of the Group at general meetings. The chairman of the Board committees, appropriate management executives and auditors of the Company will be available at general meetings to answer questions from shareholders. Time is set aside in each general meeting for such question and answer session.

3. Enquiries and Proposals to the Board

The Shareholder Communication Policy sets out detailed procedures under which the shareholders of the Company may communicate to the Board any enquiries they may have. All shareholder correspondences received by the Company will be delivered to the Group's investor relation staff for an initial review. The investor relation staff will maintain a log of the correspondences and forward either a summary or a copy of the correspondences to the Board for consideration at its next meeting.

Apart from the above, the shareholders of the Company also have the right to nominate candidates to be Directors of the Company. Following the relevant procedures which are made available to the shareholders, the shareholders may at any time send a notice of nomination setting out the information required to the Nomination Committee of the Company. After evaluation, the Nomination Committee may make recommendation to the Board which will then evaluate the nomination.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Nothing stands still in this world where change seems to be the only constant. If they are to survive, businesses need to continuously adapt to stay relevant in this "new world". This is why sustainability is important to the Group. Being one of the top brands in the footwear business in China, the Group understands how fashion and preferences change and the growing influence that social responsibility has in today's world. This is why the Group takes social responsibility seriously.

ABOUT THIS ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Reporting Scope

This is the first Environmental, Social and Governance Report of the Group issued in accordance with the Environmental, Social and Governance reporting guide, which is the Appendix 27 to Main Board Listing Rules of The Stock Exchange of Hong Kong Limited.

Taking into account our stakeholders' point of view, this Environmental, Social and Governance Report focuses on the specific environment and social issues which are believed to have an impact on the Group for the financial year ended 28 February 2017. This Environmental, Social and Governance Report covers the Group's operations in Mainland China, Hong Kong and Macau: the footwear business, and the sportswear and apparel business. Corporate Governance is addressed separately in the "Corporate Governance Report" of this annual report in accordance with Appendix 14 of the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited.

Stakeholder Engagement

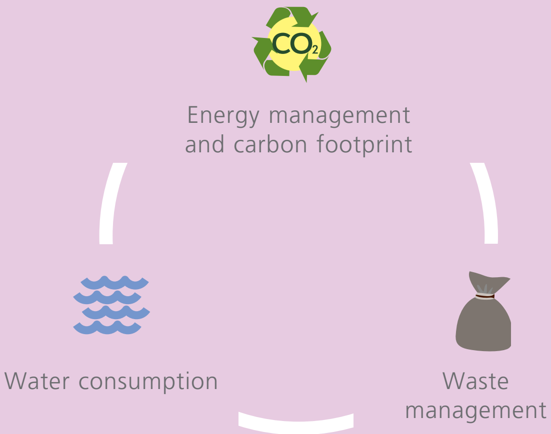
The Group has engaged with a number of stakeholders including employees, customers, suppliers and industry associations, through the use of a survey to better understand material environmental, social and governance related matters that are considered to be impactful on the business and its stakeholders. The survey results enable the Group to gain clarity in the Group's existing sustainability performance, to realign the Group's sustainability strategy and to set future measurable goals for improving the Group's performance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Managing Environmental Impact

The Group recognises the environmental impact that the Group had during the different stages of our production cycle. Global climate change, water scarcity and heavy pollution are all factors that have influenced the Group to embed environmental protection practises into our day to day business operations. The Group actively participates in various programmes in promoting environmental excellence. A main manufacturing plant of the Group has been awarded "ISO14001 Environmental Management System" certification.

The Group's continuous commitment in environment protection was recognised in April 2016 by the Environmental Campaign Committee and the Environmental Protection Department with the 2015 Hong Kong Awards for Environmental Excellence. Such external recognitions motivated the Group to further minimise the environmental impact due to its business operations and to develop a well-rounded environmental advocacy, in particular to implement green initiatives around the following areas:



Presentation ceremony held in April 2016 at the Hong Kong Convention and Exhibition Centre

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Energy management and carbon footprint

Society's growing awareness of climate change has led the Group to put greater emphasis on developing policies and measures that promote energy efficiency across the Group's properties and offices in Mainland China, Hong Kong and Macau that will reduce our carbon footprint.

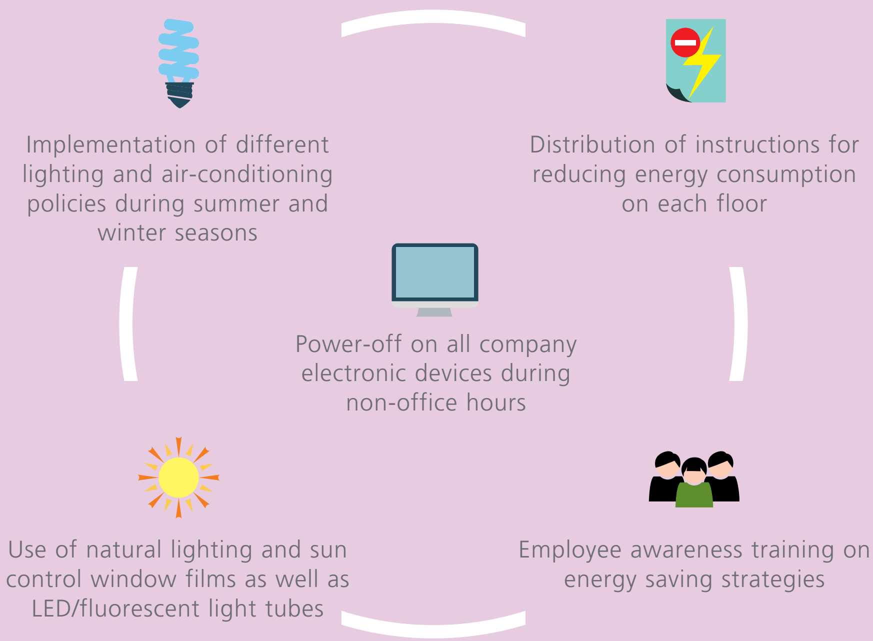
The Group has already implemented a number of energy saving steps in the Group's major manufacturing plants in Mainland China, including:

- Reduction in carbon emissions: promotion of the benefits associated with the use of public transport.
- Energy conservation: implementation of air-conditioning usage management policy, which established air-conditioning temperatures of around 25 degrees Celsius.

In addition, the Group has set the following targets for the future:

- Reduction in lighting energy consumption by using LED tubes instead of fluorescent light tubes.
- Reduction in energy consumption by thermal parts via utilisation of infrared lighting tubes.
- Reduction in motor power consumption by utilising Class II energy efficient Y3 series motors instead of the conventional Y2 series motors.

Furthermore, the Group has also adopted the following energy saving practices for offices:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To strengthen controls over energy and resource management, the Group developed an "Energy and Resources Management Procedure" to record water and electricity usage and to enable its management to monitor and adopt strategies to reduce the use of energy resources.

The Group continuously fosters innovative energy saving solutions and has reduced power consumption and contributed in creating a greener city in the communities the Group operates in. The Group participates in sharing knowledge in the GREEN PLUS Programme, which is a collaborative platform for Energy Efficiency and Conservation. This has earned the Group the "Joint Energy Saving Award" issued by the CLP Power Hong Kong Limited. Additionally, the group has also been awarded to "EnergyWi$e Certificate" and as a "Hong Kong Green organisation" by Hong Kong Environmental Campaign Committee.

The Group's major manufacturing plant in Shenzhen joined the Chinese National Carbon Trading Scheme to measure and mitigate carbon emissions. These efforts earned the Group the "CarbonSmart Achiever Award (Good Level)", which is jointly awarded by Hong Kong Productivity Council, Business Environment Council, Federation of Hong Kong Industries and Hong Kong General Chamber of Commerce.

Water Consumption

The Group has taken pre-emptive measures in wastewater treatment to ensure safe and portable water disposal. For example, an industrial wastewater treatment agreement is in place with a qualified environmental service provider for the collection and further processing of our wastewater. The Group has also invested in hardware and other infrastructure to help reduce the negative impact of its business operations to the environment. Including:

- Installation of restricting valves in the faucets to reduce water consumption.
- Implementation of water saving facilities in our Mainland China and Hong Kong offices.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Waste Management and Recycling

The Group takes waste management and recycling seriously. The Group has a formal policy to govern the waste management process. The waste of the Group is categorised as:


Recyclable


Non-recyclable


Hazardous waste

- For hazardous waste, the Group has engaged a qualified environmental service provider to process such waste to strictly comply with the local laws and regulations.
- Waste sorting procedures have been implemented for the Group's non-hazardous waste and promotes the use of recyclable and reusable materials.
- In Mainland China and Hong Kong offices, the Group has turned policies into actions by reducing the Group's paper consumption and participating in the recycling of old electronic equipment.

The People of Belle

Employees are the greatest asset of the Group. As a recipient of the "Happy Company Label" for four consecutive years, the Group pledges to continue to build a safe and healthy workplace for its employees. The Group has adopted a series of people-driven initiatives, including:

- Employment policies;
- Training and development;
- Occupational safety and health; and
- Code of ethics.

Employee participation of Cool Run (Guangzhou)

Employment Policies

The Group employs 111,737 people across Mainland China, Hong Kong and Macau. Employees are assessed equally based on their ability regardless their age, gender, marital status, pregnancy, family status, disability, race, nationality and religion. Consistent criteria is applied in all employment related decisions such as recruitment, promotion, transfer, training, dismissal and redundancy. The Group also sets and complies with the policy relating to preventing child and forced labour.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group's dedication to build a strong employer brand that attracts and retains talent is supported by:

- "**Great place to start**": the Group's structured on board program allows team members, particularly new hires to understand the Group's mission, vision, values and culture;

- "**Comfortable working environment**": the Group expanded and upgraded the facilities at workplaces, including opening staff restaurants in our manufacturing plants to cater for staff nutritional needs;

- "**Work-life balance**": care and support are provided to the team members through the Employee Assistance Program and Employee Care Program. In addition, with the majority of the employees in manufacturing plants in Mainland China working away from home, the Group has installed various on-site facilities, such as a movie theatre and extensive sports facilities at their leisure;



- "**Continuous learning environment**": collaborate with Shenzhen Central Library for the on-site library in a main manufacturing plant; and

- "**Family focused**": established a Corporate Culture Team, which is responsible for building a family-friendly workplace and organising company events with the mission to increase the bonding between colleagues and their family members. Recently, the Group's effort in providing support to breastfeeding employees has been recognised as "Family-Friendly Employers" with the "Awards for Breastfeeding Support" by the Home Affairs Bureau and Family Council.

"Family-Friendly Employers"

"Awards for Breastfeeding Support"

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Training and Development

Employee development is a key element to the Group's long term development. Staff of the Group are encouraged to equip themselves with up-to-date industry knowledge and skills as well as higher professional standards. The Group provides its employees with clear career paths and development opportunities, to motivate staff to think outside the box, encourage innovation, and demonstrate their leadership skills and management ability.

The Group invests in training and development to cultivate the best and most competitive workforce in the industry. Besides regular training courses which are designed to be in line with the required core competencies, the Group also takes into account results from staff surveys to identify staff training needs in relation to business development, performance management, talent development, career development and other special training needs. Staff development programme covers a broad range of topics, including product, displaying a professional image, product display design, etc.

The Group has also introduced a number of training and development incentives. The Professional Learning Policy motivates nominated staff who have completed one year of full-time service to claim for skill-related courses. The Tuition Reimbursement and Study Sponsorship Policy also subsidizes and encourages employees to further their studies, pursuing professional qualifications and advancing job-related knowledge.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group also established "Belle University" in 2006. Belle University provides internal training courses of the Group, which is an important part of the Group's development strategy. The main source of talent of the Group is selecting and developing management personnel internally. The aim of the Belle University is to cultivate multi-skilled comprehensive management personnel for the Group. At the same time, Belle University is also a platform of exchanging experience of the various regions, different management methods and ideas, brainstorming for problem solving. Belle University targets in providing systematic courses of management and business upgrade for the Group's senior management.

The Group's effort has been recognised by the Employees Retraining Board ("ERB") in Hong Kong as a "Manpower Developer" since 2012. The Group has also recently been awarded with the "Grand Prize Award" in the "ERB Manpower Developer Award Scheme".

Occupational Safety and Health

Safety is at the forefront of everything to the Group. Employees' well-being lies at the very heart of the Group. A formal work safety guide has been developed and communicated to staff to help protect employees from occupational hazards. All workplace accidents are handled in accordance with the employees' compensation ordinance of Mainland China, Hong Kong and Macau labour relations law. Work injuries are immediately reported internally to Human Resources Department and externally to the Labour Department of the local jurisdictions.

"Grand Prize Award" in the "ERB Manpower Developer Award Scheme"

As a responsible employer, the Group strives to enhance workplace safety. For example, within manufacturing plants of the Group strict rules govern the installation and use of equipment. Employee training, supervision, and the use of appropriate protective gear and readily-assessable first-aid supplies are a requirement before using machinery. The Group values employees' safety and health and has included additional elements as part of the employee benefits scheme, such as complementary regular health check-ups and other medical subsidies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Product Responsibility

Providing customers with safe products and quality services is a key priority for the Group. The Group is proud to be awarded for the commitment to customer service excellence across its brand offerings.

These external recognitions have been a driver for the Group to uphold its accountability towards establishing an effective management system for service delivery. To further drive accountability and sustainability, the Group has implemented policies and operating standards for the following areas:

- Supply Chain Management; and
- Customer Satisfaction.

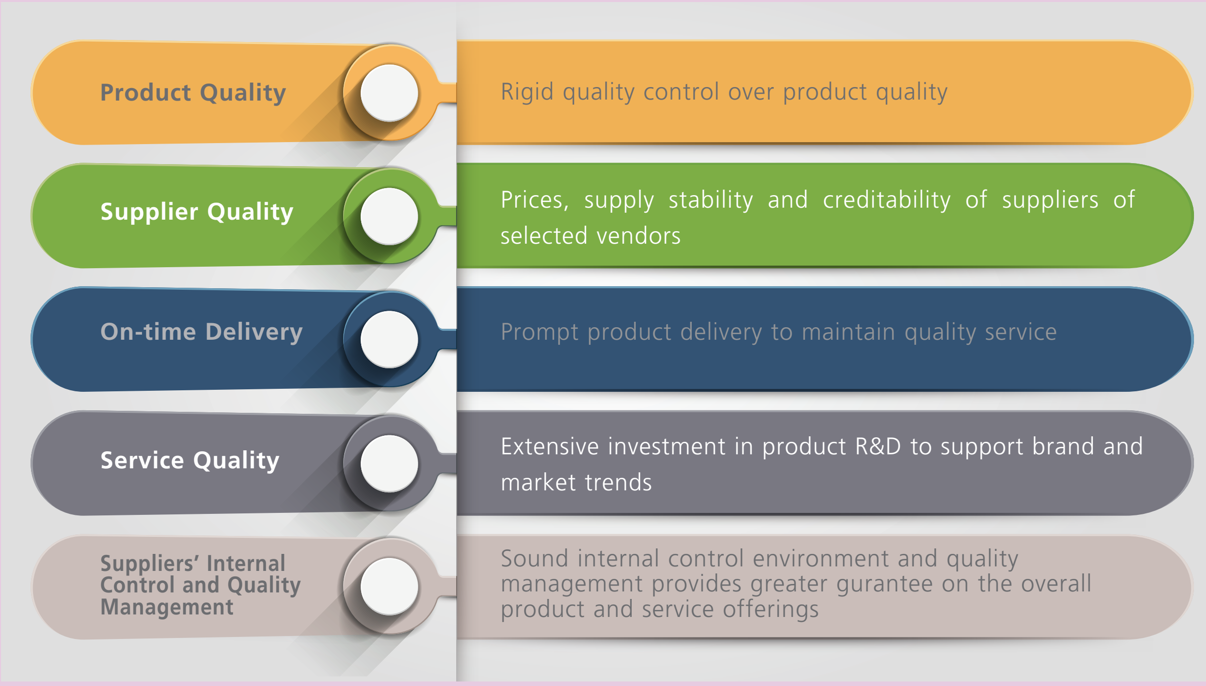
Supply Chain Management

The Group is committed to following a responsible supply chain strategy. As a critical part of the business model, supply chain of the Group extends across many regions within China and includes both suppliers and the independent contractors. Engendering the supply chain principles into the supplier chain starts at the supplier selection stage.

Qualified suppliers and contractors are selected through a formal appointment process and their performance is closely monitored at every stage of their engagement process. The vendor evaluation programme requires the Group to follow the formal "Supplier Selection Criteria" and "Supplier Evaluation Procedures" before a supplier can become a qualified partner or contractor. Before placing an order at a new supplier's facility, the Group ensures that there are no violations of the above. This includes evaluation of the scale of their operations, product quality control procedures and a site inspection, to make sure the suppliers meet the Group's quality and environmental standards.

Currently, the Group's retail network is dispersed across different geographical regions in Mainland China, Hong Kong and Macau. To ensure smooth product delivery, the Group's manufacturing plants across Mainland China are equipped with world-class product development facilities, efficient production lines and quality control systems.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



Customer Satisfaction

As one of the leading company in the footwear industry, the Group takes time to understand and fulfil, where the Group can, the needs of all customers. The Group values changing market preferences and customer demands and so by continuously engaging with the consumers for feedback, the Group is able to offer and maintain multiple communication channels, enabling customers to provide their post-sale comments and satisfaction levels. All of the Group's sales representatives are trained in customer care and provide a unique and truly quality customer experience. Nevertheless, customer complaints received by phone or by email are handled sensitively and in a timely manner. Feedback from customers, whether positive or negative, enable the Group to focus on areas that are succeeding or require improvements, enabling the Group to sustain our brand and image, and to continue to offer high quality products in the future.

The Group also sets the policies relating to advertising, labelling and privacy matters. The Group stipulates that staff should respect customers' right of willful choice as well as other rights, and must protect the privacies of the customers by keeping personal information confidential in compliance with the laws. The Group has complied with the relevant laws and regulations in protecting customers information and privacy. The Group publicizes complaints hotline as the methods of redress.

Anti-corruption

The Group sets the policies relating to bribery, extortion, fraud and money laundering in order to strengthen not only the daily regulating and inspections but also the warning education of anti-corruption.

Community Investments

The Group is committed to contribute to the communities in which the Group operate and to make a positive impact to them. The Group understands that the value of giving back to communities is just as important as growing the business. The Group has maintained a high regard for social and environmental responsibility over the years.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Donations

The Group endeavours to play its part in good corporate citizenship, providing charitable donations to support the underprivileged. Specifically, the Group has engaged in numerous charitable and community activities in the past years, partnering with different organisations to make continuous effort for the betterment of the society. These include:

Organisations	Community Activities
Henan Province Red Cross Charity Foundation	Clean-up beach and other environmental related charity events
Shenzhen Charity Federal	Sponsorship of design competition in Shenzhen
Tung Wah Group of Hospitals	Charity Bowling Competition
	"iRun" Hong Kong Jockey Club Special Marathon 2017
	Flag Day
	Promotion of iBakery products
Child Development Initiative Alliance	Christmas Carol Events
Caritas	Workshops for underprivileged children about magic performance
Hong Kong Design Institute	Sponsorship of Footwear Design Competition in Hong Kong
Life Education Activity Programme	Flag Day

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Awards and Recognition

The Group's contribution to society and to the environment is evidential and widely recognised through the numerous social related awards the Group has received.

In appreciation of the Group's efforts and contribution in community welfare programmes, this year, the Group was once again recognised with the "Caring Company" award given by the Hong Kong Council of Social Services. The Group has received this award for five consecutive years.

Other awards include:

Issuer of Award	Award
Shanghai Municipal Education Commission	Educational centre for Career skills development
Home Affairs Bureau and the Family Council	Two Awards in 2015/16 Family-Friendly Employers Award Scheme: • Family-Friendly Employers • Awards for Breastfeeding Support
Hong Kong Awards for Environmental Excellence	Certificate of Merit (Shops and Retailers)
The Hong Kong Council of Social Service	Caring Company
Association for Talent & Development	Excellence in Practice Award 2015
The Hong Kong Productivity Council and the Promoting Happiness Index Foundation	"Happy Workplace" Award
The Employees Retraining Board	Grand Prize Award in ERB Developer Award Scheme

Such esteemed recognition empowers the Group to work harder towards the Group's social sustainability goals of providing unceasing support to the communities in which the Group operates.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN – NON-EXECUTIVE DIRECTOR

Mr. Tang Yiu ("Mr. Tang"), aged 82, is a Non-executive Director, the Chairman and the founder of the Group. Mr. Tang acted as Executive Director from September 2005 to May 2012. With over 40 years of experience in the footwear manufacturing industry, he is currently the chairman of The Federation of Hong Kong Footwear Limited and the honorary president of the Sam Shui Natives Association. Mr. Tang was a committee member of the Chinese People's Political Consultative Conference in the Sanshui District of Foshan in the PRC from 2005 to 2012 and a committee member of the China Trade Advisory Committee of Hong Kong Trade Development Council from 2007 to 2011. Mr. Tang has also been awarded with the Certificate of Foshan Honorary Citizenship by the Foshan Municipality in the PRC in November 2004. Mr. Tang is a cousin of Mr. Tang Wai Lam, a Non-executive Director and is also the father of Mr. Tang King Loy, an Executive Director. Mr. Tang holds directorships in certain subsidiaries of the Company.

EXECUTIVE DIRECTORS

Mr. Sheng Baijiao ("Mr. Sheng"), aged 65, is an Executive Director and the Chief Executive Officer. Mr. Sheng has joined the Group since 1991 and has almost 30 years of experience in the footwear industry. Mr. Sheng is primarily responsible for the Group's overall strategic planning and the management of the Group's business. Prior to joining the Group, Mr. Sheng worked at the China Merchants Shekou Industrial Zone Light & Textile Industries Development Company (招商局蛇口工業區輕紡開發公司). Mr. Sheng is the chairman of the Shenzhen Leather Association. Mr. Sheng also was the vice chairman of the China Leather Industry Association. Mr. Sheng is an uncle of Mr. Sheng Fang, an Executive Director. Mr. Sheng holds directorships in certain subsidiaries of the Company.

Mr. Tang King Loy, aged 46, is an Executive Director and the President of footwear business division. Mr. Tang King Loy has joined the Group since 1999 and has over 15 years of experience in footwear industry. Mr. Tang King Loy is primarily responsible for implementation of decisions and policies in regard to the Group's overall business plan as approved by the board of directors of the Company and the Chief Executive Officer, as well as the management of footwear business. Mr. Tang King Loy graduated from The University of Hong Kong with a Bachelor's degree of science and a Master's degree in physics. He is currently the vice president of The Federation of Hong Kong Footwear Limited. Mr. Tang King Loy has been appointed as one of the authorized representatives of the Company. Mr. Tang King Loy is a son of Mr. Tang, the Chairman and a Non-executive Director; and is also a nephew of Mr. Tang Wai Lam, a Non-executive Director. Mr. Tang King Loy holds directorships in certain subsidiaries of the Company.

Mr. Sheng Fang, aged 45, is an Executive Director and the President of new business division. Mr. Sheng Fang has joined the Group since 2005 and has almost 20 years of experience in the management of footwear retail business. Mr. Sheng Fang is primarily responsible for operation management of the Group's footwear and apparel retail business. Mr. Sheng Fang studied at Tongji University from 1989 to 1993, specializing in electrical engineering. He was a representative of the 13th and 14th People's Congress of Hongkou District, Shanghai. Mr. Sheng Fang is currently a non-executive director of Baroque Japan Limited (a company listed on Tokyo Stock Exchange, stock code: 35480); and a council member of College of Design and Innovation and a part-time professor of Innovation & Venture Minor Program of Tongji University. Mr. Sheng Fang is a nephew of Mr. Sheng, the Chief Executive Officer and an Executive Director. Mr. Sheng Fang holds directorships in certain subsidiaries of the Company.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yu Wu ("Mr. Yu"), aged 50, is an Executive Director and the President of sportswear business division. Mr. Yu has joined the Group since 2005 and has over 25 years of experience in footwear and sportswear retail business. Mr. Yu is primarily responsible for the Group's sportswear marketing strategy and overall management. Mr. Yu graduated from Shandong Jianzhu University (formerly known as Shandong Institute of Architectural Engineering) with a Bachelor's degree of engineering. Mr. Yu holds directorships in certain subsidiaries of the Company.

NON-EXECUTIVE DIRECTORS

Mr. Tang Wai Lam, aged 63, is a Non-executive Director. Mr. Tang Wai Lam joined the Group in 2009 and was general manager of Hong Kong and Macau region till May 2015. Mr. Tang Wai Lam has over 40 years of experience in the footwear retail industry. Mr. Tang Wai Lam is currently the permanent honorary president of The Federation of Hong Kong Footwear Limited, the honorary president of the Sam Shui Natives Association, the executive vice president of the Federation of Hong Kong Foshan Associations Limited. Mr. Tang Wai Lam is a cousin of Mr. Tang, the Chairman and a Non-Executive Director and is also an uncle of Mr. Tang King Loy, an Executive Director. Mr. Tang Wai Lam holds directorships in certain subsidiaries of the Company.

Ms. Hu Xiaoling ("Ms. Hu"), aged 46, is a Non-executive Director. Ms. Hu was appointed as a Director in September 2005. She joins CDH Investments in 2002 and is currently a managing director of CDH Investments Management (Hong Kong) Limited. Ms. Hu is a director of Midea Group Co., Ltd. (a company listed on Shenzhen Stock Exchange, stock code: 000333) and Beijing Motie Book Co., Limited as well. Ms. Hu is currently a non-executive director and member of audit committee of Dali Foods Group Company Limited (a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 3799); and a non-executive director of Baroque Japan Limited (a company listed on Tokyo Stock Exchange, stock code: 35480); as well as since 2007 to 2014, Ms. Hu served as a non-executive director of SUNAC China Holdings Limited (a company listed on the Stock Exchange, stock code: 1918) and she also served as a director of Anhui Yingliu Electromechanical Co., Limited (a company listed on Shanghai Stock Exchange, stock code: 603308) from 2006 to 2017. Prior to joining CDH Investments Management (Hong Kong) Limited, Ms. Hu worked for the direct investment department of China International Capital Corporation Limited and Arthur Andersen. She is a fellow member of the Association of Chartered Certified Accountants. Ms. Hu graduated from Beijing Jiaotong University, previously known as Northern Jiaotong University, with a Master's degree in economics and accounting and Bachelor's degree in economics.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Kwok Wah, George ("Mr. Ho"), FCPA (Practising), aged 59, is an Independent Non-executive Director. Mr. Ho was appointed as a Director in October 2006. Mr. Ho has over 30 years of experience in accounting, auditing and financial management. He is currently a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Ho was the president of The Hong Kong Institute of Accredited Accounting Technicians from 2001 to 2003, and a director of The Taxation Institute of Hong Kong from 2002 to 2013. Mr. Ho is currently the proprietor of George K. W. Ho & Co., Certified Public Accountants. Mr. Ho is also currently a director of the Hong Kong Commerce and Industry Associations Limited and the Hong Kong Shatin Industries and Commerce Association Limited. Mr. Ho is currently an independent non-executive director, chairman of audit and remuneration committee, and member of nomination committee of Town Health International Medical Group Limited (a company listed on the Stock Exchange, stock code: 3886), an independent non-executive director, chairman of audit and remuneration committee, and member of nomination committee of Rykadan Capital Limited (a company listed on the Stock Exchange, stock code: 2288), as well as an independent non-executive director and chairman of audit committee of PuraPharm Corporation Limited (a company listed on the Stock Exchange, stock code: 1498). Mr. Ho graduated from The Hong Kong Polytechnic University with a Bachelor's degree in accountancy.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Yu Ling, Abraham ("Mr. Chan"), aged 56, is an Independent Non-Executive Director. Mr. Chan was appointed as a Director in October 2006. Mr. Chan is currently the chairman, an executive director and the chief executive officer of PuraPharm Corporation Limited (a company listed on the Stock Exchange, stock code: 1498). Mr. Chan is a committee member of the Chinese People's Political Consultative Conference of the Guangxi Zhuang Autonomous Region in the PRC, a member of the Chinese Medicine Development Committee of The Government of Hong Kong Special Administrative Region and a member of the Advisory Council on Food and Environmental Hygiene. In 2016, Mr. Chan was awarded the Director of The Year by The Hong Kong Institute of Directors. Mr. Chan was a former member of the Commission on Strategic Development (Commission Economic Development and Economic Cooperation with the Mainland) a part-time member of the Central Policy Unit of The Government of Hong Kong Special Administrative Region. Mr. Chan is a chartered engineer in the United Kingdom, a professional engineer in Ontario, Canada. Mr. Chan graduated from the University of Toronto in Canada with a Bachelor's degree in applied science.

Dr. Xue Qiuzhi ("Dr. Xue"), aged 65, is an Independent Non-executive Director. Dr. Xue was appointed as a Director in October 2006. Dr. Xue is currently the head of Center for International Business Management Research of Fudan University. Dr. Xue has been a professor of Management of Fudan University since 1996. Dr. Xue was an associate dean of the School of Management of Fudan University from 2002 to 2015. Dr. Xue was the head of the Department of International Business Administration of Fudan University from 1993 to 1999, and the head of the Department of Business Administration at the same university from 1999 to 2003. Dr. Xue graduated from Wuhan University with a Bachelor's degree in economics and obtained a Master's degree in political economics and a Doctoral degree in economics from the Universite Libre de Bruxelles in Belgium.

Mr. Gao Yu ("Mr. Gao"), aged 43, is an Independent Non-executive Director. Mr. Gao was appointed as a Director in August 2006. He is currently a managing director of the Private Equity Division of Morgan Stanley Asia Limited, primarily focusing on private equity investment activities in China. Mr. Gao is currently a non-executive director of Sparkle Roll Group Limited (a company listed on the Stock Exchange, stock code: 970) and an independent non-executive director, member of audit committee and nomination committee of China Dongxiang (Group) Co., Ltd. (a company listed on the Stock Exchange, stock code: 3818), and a director, member of strategy and investment committee and remuneration and assessment committee of Shandong Buchang Pharmaceuticals Co. Limited (a company listed on Shanghai Stock Exchange, stock code: 603858). Mr. Gao had been a director of Tongkun Group Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 601233) from 2011 to 2015. Prior to joining Morgan Stanley Asia Limited, he worked in Citigroup's Investment Banking Division in Asia for about 5 years. Mr. Gao has worked in Donaldson, Lufkin & Jenrette Inc's Debt Capital Markets Group in New York. Mr. Gao graduated from Stanford University with a Master's degree in engineering-economic systems and operations research as well as from Tsinghua University in Beijing with dual Bachelor's degrees in engineering and economics.

BIOGRAPHICAL DATA OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Song Xiaowu ("Mr. Song"), aged 52, is senior vice president and general manager of production system of footwear business division who is primarily responsible for the production management of the Group. Mr. Song joined the Group in 1993 and has over 20 years of experience in the footwear production management. Mr. Song is currently the vice chairman of the China Leather Industry Association. Mr. Song was also previously responsible for various production processes such as production, technology and quality control.

Ms. Li Zhao ("Ms. Li"), aged 59, is senior vice president and general manager in human resources who is primarily responsible for the management and operation of the Group's human resources. Ms. Li had joined the Group in 1995 and left the Group in 1997. She subsequently rejoined the Group in 2005. Prior to joining the Group, Ms. Li worked for the China Merchants Shekou Industrial Zone Light & Textile Industries Development Company (招商局蛇口工業區輕紡開發公司) and China Textile Academy (中國紡織科學研究院). Ms. Li graduated from Donghua University with a Bachelor's degree in textile mechanical engineering. Ms. Li also holds a Master's degree in business administration from Shanghai Maritime University and a Master of Business Administration for Senior Management from the Shanghai Jiaotong University.

COMPANY SECRETARY

Mr. Leung Kam Kwan ("Mr. Leung"), FCPA, aged 53 is our company secretary and the chief financial manager. Mr. Leung joined the Group in September 2004. Mr. Leung has over 25 years of experience in accounting, financial management and internal control. Prior to joining the Group, Mr. Leung had held senior positions at various listed companies in Hong Kong and had previously worked for KPMG. Mr. Leung graduated from City University of Hong Kong with a Bachelor's degree in accounting. He is also a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants, as well as a member of the Hong Kong Institute of Chartered Secretaries.

Notes:

(1) The Directors' interests in Shares and underlying Shares of the Company, if any, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as at 28 February 2017 are disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" in this report. Saved as disclosed above and in this annual report, none of the Directors has any other interest in Shares and underlying Shares within the meaning of Part XV of the SFO.

(2) Save as disclosed in the Directors' respective biographical details under "Biographical Data of Directors and Senior Management" section, the Directors (i) have not held any directorships in other listed public companies, whether in Hong Kong or overseas, during the last three years; and (ii) do not have any other relationships with any Directors, senior management or substantial or controlling shareholders of the Company.

(3) In accordance with article 87 of the Company's Articles of Association, Mr. Sheng Fang (an Executive Director), Ms. Hu (a Non-executive Director) and Mr. Gao (an Independent Non-executive Director) shall retire from office by rotation at the forthcoming annual general meeting. Mr. Sheng Fang, Ms. Hu and Mr. Gao, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BELLE INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Belle International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 152, which comprise:

- the consolidated balance sheet as at 28 February 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 28 February 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarized as follows:

- Impairment of intangible assets
- Net realizable value of inventories

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of intangible assets	
Refer to notes 4 and 17 to the consolidated financial statements The Group has a significant amount of intangible assets mainly comprising goodwill and trademarks arising from business combinations in prior years. As described in the Summary of Significant Accounting Policies in note 2.9 to the consolidated financial statements, intangible assets are carried at cost less accumulated amortisation and impairment, where relevant. Goodwill is subject to impairment review at least annually; intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible assets may not be recoverable. Significant judgments and estimates are required to determine the recoverable amounts of the intangible assets, based on value-in-use calculations of the estimated future cash flows of the relevant cash-generating-units using appropriate key assumptions including annual and terminal growth rates, gross margins, capital expenditure and discount rates. Based on the results of the impairment assessments, impairment charges of RMB782.2 million and RMB321.1 million have been made by management on the Group's goodwill and other intangible assets, respectively, for the year ended 28 February 2017. We focused on this area due to the size of the balances and the assumptions involved in determining the recoverable amounts of the intangible assets.	Our procedures in relation to management's impairment assessment on intangible assets included: • We understood and evaluated the composition of management's future cash flow forecasts, the process by which they were drawn up, and tested mathematical accuracy of the underlying value-in-use calculations. • We compared the current year actual results with the figures included in prior year forecasts to assess the quality of management's forecasting process. We also compared the cash flow forecasts to financial budgets approved by management and assessed the reasonableness of the forecasts and budgets by comparing them against historical information and business plans. • We challenged management's assumptions in the forecasts by comparing the growth rates and gross margins against historical performance taking into account current market conditions and based on our industry knowledge; checking capital expenditure against the Group's approved budgets and business plans; and assessing the discount rates by benchmarking against the discount rates for comparable companies. • We also involved our internal valuation experts in assessing the appropriateness and consistency of the methodologies used and certain key assumptions and estimates applied; • We further evaluated the sensitivity analyses performed by management around the key assumptions applied to the value-in-use calculations in order to assess the potential impact of a range of possible outcomes. Based on the procedures performed, we found the assumptions of management in relation to impairment assessment on intangible assets to be supportable by available evidence.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Net realizable value of inventories	
Refer to notes 4 and 22 to the consolidated financial statements At 28 February 2017, inventories of the Group amounted to RMB7,876.9 million. As described in the Summary of Significant Accounting Policies in note 2.11 to the consolidated financial statements, inventories are carried at the lower of cost and net realizable value. Management applied judgment in determining the net realizable value of inventories. Net realizable value is determined by management based upon a detailed analysis of the aging profile of the inventories, with reference to the current marketability and latest selling prices of the respective finished goods and the current retail market conditions existing at the end of the year. For the year ended 28 February 2017, provision for impairment of inventories of RMB26.0 million was made to write down the carrying amount of certain inventories to their estimated net realizable value as at 28 February 2017. We focused on this area due to the size of the balances and the assumptions involved in determining the net realizable value of the inventories.	Our procedures in relation to management's assessment of net realizable value on inventories included: • We understood and evaluated the key controls on inventories operating across the Group, including the procedures on periodic review of inventories impairment, and validated their effectiveness on a sample basis. • We tested, on a sample basis, the accuracy of the inventories aging profile analyses used by management to estimate the appropriate provision for slow moving and obsolete inventories. • We performed analyses on inventories holding and movement data to identify inventories with indication of slow moving or obsolescence. • We reviewed the utilisation of raw materials by production subsequent to the year, on a sample basis, to assess the appropriateness of the associated provision made, if any. • We compared the carrying amounts of a sample of finished goods to their net realizable values through a review of sales subsequent to the year end to check for completeness of the associated provision. Where there were no subsequent sales of the respective finished goods after the year end, we challenged management as to the realizable values of the finished goods, corroborating explanations with the aging profile, historical margins and marketability of the respective finished goods, as appropriate. Based on procedures performed, we found the assumptions of management in relation to the assessment on the net realizable value of inventories to be supportable by available evidence.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mak Tze Leung, William.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 May 2017

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 28 FEBRUARY 2017

	Note	Year ended 28 February 2017 RMB million	29 February 2016 RMB million
Revenue	5	**41,706.5**	40,790.2
Cost of sales		**(19,050.9)**	(17,832.3)
Gross profit		**22,655.6**	22,957.9
Selling and distribution expenses		**(14,415.4)**	(14,345.8)
General and administrative expenses		**(4,061.5)**	(3,516.0)
Other income	6	**497.6**	484.5
Other expenses		**(17.8)**	(22.7)
Impairment of intangible assets	17	**(1,103.3)**	(1,356.4)
Operating profit	7	**3,555.2**	4,201.5
Finance income		**291.2**	379.1
Finance costs		**(0.1)**	(111.2)
Finance income, net	8	**291.1**	267.9
Share of results of associates and a joint venture	18	**6.3**	71.8
Gains on partial disposal and dilution of interest in an associate	18	**160.3**	–
Profit before income tax		**4,012.9**	4,541.2
Income tax expense	9	**(1,596.9)**	(1,596.1)
Profit for the year		**2,416.0**	2,945.1
Attributable to:			
Equity holders of the Company		**2,403.4**	2,934.1
Non-controlling interests		**12.6**	11.0
		2,416.0	2,945.1
Earnings per share attributable to equity holders of the Company for the year	10	***RMB cents***	*RMB cents*
– basic		**29.38**	35.86
– diluted		**28.50**	34.79

The notes on pages 77 to 152 are an integral part of these consolidated financial statements.

Details of dividends payable to equity holders of the Company are set out in Note 11.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 28 FEBRUARY 2017

	Year ended	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Profit for the year	**2,416.0**	2,945.1
Other comprehensive income		
Items that may be subsequently reclassified to income statement:		
Exchange differences	**140.5**	17.5
Other comprehensive income for the year	**140.5**	17.5
Total comprehensive income for the year	**2,556.5**	2,962.6
Attributable to:		
Equity holders of the Company	**2,543.9**	2,951.6
Non-controlling interests	**12.6**	11.0
	2,556.5	2,962.6

The notes on pages 77 to 152 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 28 FEBRUARY 2017

	Note	As at 28 February 2017 RMB million	29 February 2016 RMB million
ASSETS			
Non-current assets			
Property, plant and equipment	14	**4,670.7**	4,561.3
Land use rights	15	**1,533.0**	1,525.3
Investment properties	16	**236.9**	241.6
Intangible assets	17	**1,397.8**	2,582.8
Interests in associates and a joint venture	18	**883.5**	946.2
Available-for-sale financial assets	19	**181.4**	–
Long-term deposits, prepayments and other assets	20	**441.8**	393.4
Deferred income tax assets	21	**457.2**	457.7
		9,802.3	10,708.3
Current assets			
Inventories	22	**7,876.9**	6,877.4
Trade receivables	23	**3,679.4**	4,326.9
Deposits, prepayments and other receivables	20	**1,790.8**	1,360.7
Structured bank deposits	24	**–**	4,629.8
Term deposits with initial terms of over three months	25	**5,006.3**	23.0
Bank balances and cash	25	**3,589.9**	3,128.7
		21,943.3	20,346.5
Total assets		**31,745.6**	31,054.8

The notes on pages 77 to 152 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 28 FEBRUARY 2017

	Note	As at 28 February 2017 RMB million	29 February 2016 RMB million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	**83.1**	83.1
Share premium		**9,214.1**	9,214.1
Reserves	30	**17,176.9**	15,778.9
		26,474.1	25,076.1
Non-controlling interests		**149.5**	209.9
Total equity		**26,623.6**	25,286.0
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	21	**39.4**	122.5
Deferred income		**45.3**	50.9
		84.7	173.4
Current liabilities			
Trade payables	26	**1,079.2**	956.9
Other payables, accruals and other liabilities	27	**2,629.3**	2,112.0
Short-term borrowings	28	**–**	860.6
Current income tax liabilities		**1,328.8**	1,665.9
		5,037.3	5,595.4
Total liabilities		**5,122.0**	5,768.8
Total equity and liabilities		**31,745.6**	31,054.8

The financial statements on pages 70 to 152 were approved by the Board of Directors on 15 May 2017 and were signed on its behalf.

Sheng Baijiao
Director

Tang King Loy
Director

The notes on pages 77 to 152 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 28 FEBRUARY 2017

	Capital and reserves attributable to equity holders of the Company											
	Share capital RMB million (Note 29)	Share premium RMB million	Shares held for share award scheme RMB million (Note 31)	Share-based compensation reserve RMB million (Note 31)	Merger reserve RMB million (Note 30(b))	Statutory reserves RMB million (Note 30(c))	Capital redemption reserve RMB million	Exchange reserve RMB million	Retained earnings RMB million	Sub-total RMB million	Non-controlling interests RMB million	Total RMB million
For the year ended 28 February 2017												
As at 1 March 2016	83.1	9,214.1	(1,716.1)	306.6	3.5	1,331.8	0.1	(172.0)	16,025.0	25,076.1	209.9	25,286.0
Comprehensive income:												
Profit for the year	–	–	–	–	–	–	–	–	2,403.4	2,403.4	12.6	2,416.0
Other comprehensive income:												
Exchange differences	–	–	–	–	–	–	–	140.5	–	140.5	–	140.5
Total comprehensive income for the year	–	–	–	–	–	–	–	140.5	2,403.4	2,543.9	12.6	2,556.5
Dividends	–	–	–	–	–	–	–	–	(1,518.2)	(1,518.2)	–	(1,518.2)
Employee share award scheme – Value of employee services	–	–	–	430.7	–	–	–	–	–	430.7	–	430.7
Acquisition of equity interests of a subsidiary from non-controlling shareholders *(note)*	–	–	–	–	–	–	–	–	(58.4)	(58.4)	(75.6)	(134.0)
Capital contribution from a non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	2.6	2.6
Transfer to reserves	–	–	–	–	–	54.3	–	–	(54.3)	–	–	–
	–	–	–	430.7	–	54.3	–	–	(1,630.9)	(1,145.9)	(73.0)	(1,218.9)
As at 28 February 2017	83.1	9,214.1	(1,716.1)	737.3	3.5	1,386.1	0.1	(31.5)	16,797.5	26,474.1	149.5	26,623.6

Note: During the year ended 28 February 2017, the Group acquired 22.5% equity interest of a subsidiary from non-controlling shareholders at a total consideration of RMB134.0 million, the difference of which against the carrying amount of non-controlling interest as of the date of acquisition is recorded in equity.

The notes on pages 77 to 152 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 28 FEBRUARY 2017

	Capital and reserves attributable to equity holders of the Company											
	Share capital *RMB million* *(Note 29)*	Share premium *RMB million*	Shares held for share award scheme *RMB million* *(Note 31)*	Share-based compensation reserve *RMB million* *(Note 31)*	Merger reserve *RMB million* *(Note 30(b))*	Statutory reserves *RMB million* *(Note 30(c))*	Capital redemption reserve *RMB million*	Exchange reserve *RMB million*	Retained earnings *RMB million*	Sub-total *RMB million*	Non-controlling interests *RMB million*	Total *RMB million*
For the year ended 29 February 2016												
As at 1 March 2015	83.1	9,214.1	(1,716.1)	153.3	3.5	1,209.0	0.1	(189.5)	16,165.7	24,923.2	198.9	25,122.1
Comprehensive income:												
Profit for the year	–	–	–	–	–	–	–	–	2,934.1	2,934.1	11.0	2,945.1
Other comprehensive income:												
Exchange differences	–	–	–	–	–	–	–	17.5	–	17.5	–	17.5
Total comprehensive income for the year	–	–	–	–	–	–	–	17.5	2,934.1	2,951.6	11.0	2,962.6
Dividends	–	–	–	–	–	–	–	–	(2,952.0)	(2,952.0)	–	(2,952.0)
Employee share award scheme											–	
– Value of employee services	–	–	–	153.3	–	–	–	–	–	153.3	–	153.3
Transfer to reserves	–	–	–	–	–	122.8	–	–	(122.8)	–	–	–
	–	–	–	153.3	–	122.8	–	–	(3,074.8)	(2,798.7)	–	(2,798.7)
As at 29 February 2016	83.1	9,214.1	(1,716.1)	306.6	3.5	1,331.8	0.1	(172.0)	16,025.0	25,076.1	209.9	25,286.0

The notes on pages 77 to 152 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 28 FEBRUARY 2017

	Note	Year ended 28 February 2017 RMB million	29 February 2016 RMB million
Cash flows from operating activities			
Net cash generated from operations	33(a)	**6,418.1**	6,772.1
Income tax paid		**(2,026.9)**	(1,628.8)
Net cash generated from operating activities		**4,391.2**	5,143.3
Cash flows from investing activities			
Acquisition of an associate	18	**–**	(200.5)
Acquisition of additional interest in an associate	18	**(38.1)**	–
Acquisition of a business	32	**–**	(284.4)
Acquisition of available-for-sale financial assets		**(181.4)**	–
Proceeds from partial disposal of interest in an associate		**333.8**	–
Loan to an associate		**(111.7)**	–
Payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets	33(b)	**(1,341.1)**	(1,360.5)
Proceeds from disposal of property, plant and equipment and land use rights	33(c)	**65.2**	39.9
Placement of structured bank deposits		**(2,508.5)**	(14,931.4)
Proceeds from maturity of structured bank deposits		**6,952.5**	16,448.3
Placement of term deposits with initial terms of over three months		**(6,388.5)**	(23.0)
Proceeds from maturity of term deposits with initial terms of over three months		**1,439.2**	20.0
Interest received		**222.2**	481.7
Net cash (used in)/generated from investing activities		**(1,556.4)**	190.1
Cash flows from financing activities			
Dividends paid		**(1,518.2)**	(2,952.0)
Interest paid		**(0.1)**	(45.9)
Acquisition of equity interest of a subsidiary from non-controlling shareholders		**(134.0)**	–
Capital contribution from a non-controlling shareholder		**2.6**	–
Proceeds from borrowings		**–**	5,498.8
Repayments of borrowings		**(861.3)**	(7,360.1)
Net cash used in financing activities		**(2,511.0)**	(4,859.2)
Net increase in cash and cash equivalents		**323.8**	474.2
Cash and cash equivalents at beginning of the year		**3,212.7**	2,730.7
Exchange gains on cash and cash equivalents		**53.4**	7.8
Cash and cash equivalents at end of the year	33(d)	**3,589.9**	3,212.7

The notes on pages 77 to 152 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Belle International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in the manufacturing, distribution and retailing of shoes and footwear products; and the sales of sportswear and apparel products. The Group has manufacturing plants in the People's Republic of China (the "PRC") for the production of shoes and footwear products, and sells mainly in the PRC, Hong Kong and Macau.

The Company was incorporated in the Cayman Islands on 19 May 2004 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated and have been approved for issue by the Board of Directors on 15 May 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) Effect of adopting new standard and amendments to standards

The following new standard and amendments to standards are mandatory for accounting periods beginning on or after 1 March 2016, the adoption of which does not have any significant impact to the results and financial position of the Group.

IFRSs (amendment)	Annual improvements to IFRSs 2012-2014 cycle
IFRS 10, IFRS 12 and IAS 28 (2011) (amendment)	Investment entities: applying the consolidation exception
IFRS 11 (amendment)	Accounting for acquisitions of interests in joint operations
IFRS 14	Regulatory deferral accounts
IAS 1 (amendment)	Disclosure initiative
IAS 16 and IAS 38 (amendment)	Acceptable methods of depreciation and amortization
IAS 16 and IAS 41 (amendment)	Agriculture: Bearer plants
IAS 27 (2011) (amendment)	Equity method in separate financial statements

(b) New standards and amendments to standards that have been issued but are not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 March 2016 and have not been applied in preparing these financial statements.

IFRS 2 (amendment)	Classification and measurement of share-based payment transactions (2)
IFRS 4 (amendment)	Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts (3)
IFRS 9 (2014)	Financial instruments (2)
IFRS 10 and IAS 28 (amendment)	Sale or contribution of assets between an investor and its associates or joint venture (4)
IFRS 15	Revenue from contracts with customers (2)
IFRS 15 (amendment)	Clarifications to IFRS 15 (3)
IFRS 16	Leases (3)
IAS 7 (amendment)	Statement of cash flows – disclosure initiative (1)
IAS 12 (amendment)	Recognition of deferred tax assets for unrealised losses (1)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New standards and amendments to standards that have been issued but are not yet effective (Continued)

(1) Effective for the Group for annual period beginning on 1 March 2017.
(2) Effective for the Group for annual period beginning on 1 March 2018.
(3) Effective for the Group for annual period beginning on 1 March 2019.
(4) Effective date to be determined.

None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9 Financial instruments

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The Group has yet to undertake a detailed assessment of the classification and measurement of its financial assets, but management considers that its investments in equity instruments currently classified as available-for-sale financial assets might fall within the classification as at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income which will not be recycling to the profit and loss, hence, there might be a change to the accounting of these assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

There is a change in hedge accounting rules that more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group does not have any such hedging instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New standards and amendments to standards that have been issued but are not yet effective (Continued)

IFRS 9 Financial instruments *(Continued)*

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, and it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. IFRS 9 must be applied for financial years commencing on or after 1 March 2018. The Group does not intend to adopt IFRS 9 before its mandatory date.

IFRS 15 Revenue from contracts with customers

IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The new standard permits either a full retrospective or a modified retrospective approach for the adoption.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. A further clarification to IFRS 15 was issued in relation to the identification of performance obligations, principal versus agent consideration, as well as licensing application guidance. Management is currently assessing the effects of applying the new standard on the Group's financial statements and currently does not anticipate that the application of IFRS 15 in the future will have a material effect on the Group's consolidated financial statements.

IFRS 15 is mandatory for financial years commencing on or after 1 March 2018. The Group does not intend to adopt the standard before its effective date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New standards and amendments to standards that have been issued but are not yet effective (Continued)

IFRS 16 Leases

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the Group's operating leases.

As at 28 February 2017, the Group has non-cancellable operating lease commitments of RMB2,997.2 million (Note 34(b)). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 March 2019. The Group does not intend to adopt the standard before its effective date.

There are no other IFRSs or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Subsidiaries

(a) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 28 February (or 29 February in a leap year).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

(i) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(a) Consolidation (Continued)

(i) Business combinations (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intra-group transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(ii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Subsidiaries (Continued)

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less any impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates and joint arrangements

(a) Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

(b) Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be a joint venture. Joint ventures are accounted for using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Associates and joint arrangements (Continued)

If the ownership interest in an associate/a joint venture is reduced but significant influence/joint control is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss of associates/a joint venture are recognized in the income statement, and its share of post-acquisition movements in other comprehensive income are recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investments. When the Group's share of loss in an associate/a joint venture equals or exceeds its interest in an associate/a joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate/joint venture.

The Group determines at each reporting date whether there is any objective evidence that investments in associates/a joint venture are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate/joint venture and its carrying value and recognizes the amount adjacent to 'share of results of associates and a joint venture' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates/joint venture are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates/joint venture. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates/joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates/joint venture are recognized in the income statement.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognized in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, plant and equipment

Property, plant and equipment other than construction-in-progress are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortization from the time when the land interest becomes available for its intended use. Amortization on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	Shorter of remaining lease term of 30-70 years or useful life
Buildings	20-40 years
Leasehold improvements	1-5 years
Plant and equipment	10 years
Furniture and fixtures and other equipment	3-5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gains or losses on disposals of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and are recognized in the income statement.

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policies. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought to use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Land use rights

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses, if any. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for a period from 37 to 50 years. Amortization of land use rights is calculated on a straight-line basis over the period of leases.

2.8 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. It also includes properties that are being constructed or developed for future use as investment properties.

Investment property is carried at cost, including the related transaction costs, less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over their estimated useful lives of 35 to 40 years. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes.

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Intangible assets (Continued)

(a) Goodwill (Continued)

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Acquired distribution and license contracts

Distribution and license contracts acquired in a business combination are recognized initially at fair value at the acquisition date and subsequently carried at the amount initially recognized less accumulated amortization and impairment losses, if any. Amortization is calculated using the straight-line method to allocate the costs of acquired distribution and license contracts over their estimated useful lives of 1 to 13 years.

(c) Acquired trademarks

Separately acquired trademarks are carried at cost less accumulated amortization and accumulated impairment losses, if any. Trademarks acquired in a business combination are recognized initially at fair value at the acquisition date and subsequently carried at the amount initially recognized less accumulated amortization and accumulated impairment losses, if any. Amortization of trademarks that have definite useful lives is calculated using the straight-line method to allocate the costs of acquired trademarks over their estimated useful lives of 10 to 30 years.

(d) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring the specific software into usage. These costs are amortized using the straight-line method over their estimated useful lives of 5 years. Cost associated with maintaining computer software programmes are recognized as an expense as incurred.

Computer software development costs recognized as assets are amortized over their estimated useful lives of not exceeding 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet ready for use are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Inventories

Inventories, comprising raw materials, work-in-progress, finished goods and consumables, are stated at the lower of cost and net realizable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor costs, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the Group's financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

(a) Classification (Continued)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, structured bank deposits, term deposits, bank balances and cash, deposits and other receivables in the consolidated balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months from the end of the reporting period.

As at 28 February 2017 and 29 February 2016, the Group did not hold any significant financial assets at fair value through profit or loss.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are recognized initially at fair value and subsequently carried at amortized cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or its subsidiaries or the counterparty.

(d) Impairment of financial assets

(i) Assets carried at amortized cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loan and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Financial assets (Continued)

(d) Impairment of financial assets (Continued)

(ii) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from equity and recognized in profit or loss. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.13 Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment. If collection of trade and other receivables is expected in one year or less (or any in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks with original maturities of three months or less and other short-term highly liquid investments with original maturities of three months or less.

2.15 Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities (including trade and other payables) are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest method. An equity instrument is any contract that does not meet the definition of financial liability and evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Payables

Payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2.17 Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to the income statement in the period in which they are incurred.

2.18 Current and deferred income tax

The income tax expense for the year comprises current and deferred income tax. Income tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the places where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the relevant tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and a joint venture, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates/joint ventures. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associates'/joint ventures' undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and a joint venture only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits

(a) Pension obligations

The Group participates in various defined contribution retirement benefit plans which are available to all relevant employees. These plans are generally funded through payments to schemes established by governments or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays contributions on a mandatory, contractual or voluntary basis into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group's contributions to the defined contribution plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(b) Bonus entitlements

The expected cost of bonus payments is recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities of bonus plan are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(c) Share-based compensation benefits

The Group operates a number of share-based compensation plans (including share option scheme and share award scheme), under which the Group receives services from employees as consideration for equity instruments (including share options and awarded shares) of the Group. The fair value of the employee services received in exchange for the grant of equity instruments of the Group is recognized as an expense over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, and credited to share-based compensation reserve under equity.

No share options have been granted under the share option scheme operated by the Group since its adoption and up to 28 February 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits (Continued)

(c) Share-based compensation benefits (Continued)

Share award scheme ("Share Award Scheme")

For grant of awarded shares, the total amount to be expensed is determined by reference to the fair value of the awarded shares granted at the grant date taking into account of the expected dividends during the vesting period. Non-market performance and services conditions are included in assumptions about the number of awarded shares that are expected to become vested. The Group recognizes dividends paid in respect of these awarded shares during the vesting period directly in equity.

From the perspective of the Company, the Company grants its equity instruments to employees of its subsidiaries to exchange for their services related to the subsidiaries. Accordingly, the share-based compensation expenses, which are recognized in the consolidated financial statements, are treated as part of the "Interests in subsidiaries" in the Company's balance sheet.

At each balance sheet date, the Group and the Company revise their estimates of the number of awarded shares that are expected to vest and recognizes the impact of the revision of original estimates, if any, in the consolidated income statement of the Group and in the "Interests in subsidiaries" of the Company, with a corresponding adjustment made to equity over the remaining vesting period.

Shares held for share award scheme

The consideration paid by the Company through a share award scheme trustee, a structured entity ("Share Scheme Trustee") established by the Company for the purpose of administering and holding the Company's shares acquired for the Share Award Scheme, which is set up for the benefits of eligible persons of the Share Award Scheme, for purchasing the Company's shares from the market, including any directly attributable incremental cost, is presented as "Shares held for share award scheme" and deducted from total equity.

When the Share Scheme Trustee transfers the Company's shares to the awardees upon vesting, the related costs of the awarded shares vested are credited to "Shares held for share award scheme", with a corresponding adjustment to "Share premium".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligations using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.21 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. For a component of the lease payment which is not fixed but is based on future amount of a factor, other than the passage of time, such as percentage of sales or concessionaire fees, the amount is recognized as expenses as it arises.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of asset.

2.22 Government incentives

Incentives from the government are recognized at their fair value where there is a reasonable assurance that the incentives will be received and the Group will comply with all attached conditions.

Government incentives relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government incentives relating to property, plant and equipment and projects are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets and projects.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of (i) the amount initially recognized less, where appropriate, cumulative amortization recognized in the income statement over the period of the relevant liabilities and (ii) the amount of which the Group is obliged to reimburse the recipient under the financial guarantee contracts.

2.24 Revenue and income recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts, and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue and income are recognized as follows:

(a) Sales of goods

Revenue from the sales of goods is recognized when the risk and reward of the goods have been transferred to the customer, which is usually at the time when a group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer’s acceptance of the products. Accumulated experience is used to estimate and provide for sales returns at the time of sale.

(b) Commissions from concessionaire sales are recognized upon the sales of goods by the relevant retail outlets.

(c) Interest income is recognized using the effective interest method.

(d) Rental income under operating leases is recognized on a straight-line basis over the lease periods.

2.25 Dividend distribution

Dividend distribution to the Company’s shareholders is recognized as a liability in the Company’s and the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders or directors, where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, cash flow and fair value interest rate risks, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The use of financial derivatives to manage certain risk exposures is governed by the Group's policies approved by the Board of Directors of the Company.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions originally denominated and settled in RMB. The Group also has retail operations in Hong Kong and Macau, for which foreign exchange risk is considered insignificant. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk from various currencies, primarily with respect to Hong Kong Dollars ("HK$") and the United States Dollars ("US$").

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into certain forward foreign exchange contracts, when necessary, to manage its exposure against HK$ and US$ and to mitigate the impact on exchange rate fluctuations. During the years ended 28 February 2017 and 29 February 2016, no forward foreign exchange contracts had been entered into by the Group.

As at and during the year ended 28 February 2017, the Group's financial assets and liabilities, and transactions arising from its operations do not expose the Group to material foreign exchange risk as the Group's financial assets and liabilities are primarily denominated in the respective group companies' functional currency.

As at 28 February 2017, if RMB has strengthened or weakened by 5% against HK$ with all other variables held constant, profit for the year would have been RMB80.8 million lower/higher (2016: RMB59.1 million lower/higher) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HK$ denominated receivables, bank balances and cash, and payables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Cash flow and fair value interest rate risks

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash at banks and certain structured bank deposits and term deposits, details of which have been disclosed in Notes 24 to 25. The Group's exposure to changes in interest rates is also attributable to its borrowings, details of which have been disclosed in Note 28. Borrowings carried at floating rates expose the Group to cash flow interest rate risk whereas those carried at fixed rates expose the Group to fair value interest rate risk. The Group's borrowings were carried at floating rates and expose the Group to cash flow interest rate risk while a significant part of the Group's structured bank deposits and all of its term deposits with initial terms of over three months were carried at fixed rates which does not expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure against cash flow interest rate risks. All borrowings of the Group were fully settled during the year. As any reasonable changes in interest rate would not result in a significant impact on the Group's results, no sensitivity analysis is presented for interest rate risk.

(c) Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of trade and other receivables, cash at banks, structured bank deposits, term deposits with banks, and rental deposits included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

The Group has policies in place to ensure that sales of on credit terms are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date while credit sales are generally on credit terms within 30 days. Normally the Group does not require collaterals from trade debtors. The existing debtors have no significant defaults in the past. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that no provision for uncollectible receivables is required.

The Group also makes deposits (current and non-current) for rental of certain of its retail outlets with the relevant landlords. Management does not expect any loss arising from non-performance by these counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Credit risk (Continued)

As at 28 February 2017 and 29 February 2016, substantially all the bank balances, structured bank deposits and term deposits with banks as detailed in Notes 24 to 25 are held in major financial institutions located in Hong Kong and the PRC, which management believes are of high credit quality. The Group has a policy to limit the amount of credit exposure to any financial institution and management does not expect any loss arising from non-performance by these counterparties.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, repayment of borrowings and payment for purchases and operating expenses. The Group also used cash as consideration for settlement of its acquisition of businesses. The Group finances its acquisitions and working capital requirements through a combination of internal resources and bank borrowings, as necessary.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed credit facilities to meet its working capital requirements.

As at 28 February 2017 and 29 February 2016, the Group's financial liabilities are all due for settlement contractually within 12 months and the contractual undiscounted cash outflow of the Group's financial liabilities approximates their carrying amounts included in the consolidated balance sheet. Interest element in connection with the Group's short-term borrowings as at 29 February 2016 payable in the next twelve months calculated in accordance with the relevant borrowing agreements are considered relatively insignificant.

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Fair value estimation

The Group's financial instruments that are measured in the balance sheet at the following fair value measurement hierarchy:

– Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

– Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

– Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 29 February 2016, the Group did not have any significant financial assets or financial liabilities in the consolidated balance sheet which is measured at fair value.

As at 28 February 2017, except for the unlisted investment fund of RMB181.4 million (2016: Nil) that classified as available-for-sale financial assets and was measured at level 3 fair value measurement hierarchy, the Group did not have any significant financial assets or financial liabilities in the consolidated balance sheet which is measured at fair value.

There was no transfer between levels 1, 2 and 3 during the year.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

– Quoted market prices or dealer quotes for similar instruments; and

– Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments for the year ended 28 February 2017:

	Unlisted Investment fund *RMB million*
As at 1 March 2016	–
Additions	181.4
As at 28 February 2017	**181.4**

The fair value of the Group's available-for-sale financial assets is determined based on net assets value of the fund after adjusting the carrying amounts of the underlying investments of the fund to their fair values, which are determined based on recent transaction prices.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders or obtain new bank borrowings. The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long term.

The Group also monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less structured bank deposits (including current and non-current structured bank deposits as shown in the consolidated balance sheet), term deposits with initial terms of over three months and bank balances and cash. Total capital is calculated as "Equity", as shown in the consolidated balance sheet plus net debt.

During the year, the Group's strategy, which remained unchanged from prior year, was to maintain a net cash position. As at 28 February 2017 and 29 February 2016, the Group has a net cash position and the aggregate balances of structured bank deposits, term deposits with initial terms of over three months and bank balances and cash exceeded the total balance of borrowings by RMB8,596.2 million (2016: RMB6,920.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of non-financial assets

The Group tests annually whether goodwill has suffered any impairment (Note 17). Other non-financial assets including property, plant and equipment, land use rights and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; (iii) the selection of the most appropriate valuation technique, e.g. the market approach, the income approach, as well as a combination of approaches, including the adjusted net asset method; and (iv) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Company's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. Management reassesses these estimates at each balance sheet date.

(c) Useful lives, residual values and depreciation charges of property, plant and equipment/useful lives and amortization of intangible assets

The Group's management determines the estimated useful lives, residual values and related depreciation/amortization charges for the Group's property, plant and equipment and intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortization charges where useful lives are different to that of previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives and actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation/amortization expense in future periods.

(d) Current and deferred income tax

The Group is subject to income taxes in the PRC and other jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION

The Group is principally engaged in the manufacturing, distribution and retailing of shoes and footwear products, and the sales of sportswear and apparel products.

CODM has been identified as the executive directors. CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

CODM assesses the performance of the business from a product perspective, i.e. by shoes and footwear products and sportswear and apparel products.

CODM assesses the performance of the operating segments based on a measure of the results of reportable segments. Finance income and costs, share of results of associates and a joint venture, gains on partial disposal and dilution of interest in an associate, corporate income and expenses, and amortization and impairment of intangible assets are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the financial statements.

Revenue from external customers is after elimination of inter-segment revenue. Sales between segments are carried out on mutually agreed terms. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

Assets of reportable segments exclude investment properties, available-for-sale financial assets, interests in associates and a joint venture, deferred income tax assets, structured bank deposits, term deposits with initial terms of over three months and other corporate assets (including certain corporate property, plant and equipment, and bank balances and cash), all of which are managed on a central basis. Liabilities of reportable segments exclude current and deferred income tax liabilities, short-term borrowings and other corporate liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

	Year ended 28 February 2017				
	Shoes and footwear products *RMB million*	Sportswear and apparel products *RMB million*	Total reportable segments *RMB million*	Unallocated *RMB million*	Total *RMB million*
Revenue					
Sales of goods	18,960.0	22,554.6	41,514.6	–	41,514.6
Commissions from concessionaire sales	–	191.9	191.9	–	191.9
	18,960.0	22,746.5	41,706.5	–	41,706.5
Results of reportable segments	2,979.3	1,848.6	4,827.9	–	4,827.9

Reconciliation of results of reportable segments to profit for the year

Results of reportable segments	4,827.9
Amortization of intangible assets	(81.7)
Impairment of intangible assets	(1,103.3)
Unallocated income	27.1
Unallocated expenses	(114.8)
Operating profit	3,555.2
Finance income	291.2
Finance costs	(0.1)
Share of results of associates and a joint venture	6.3
Gains on partial disposal and dilution of interest in an associate	160.3
Profit before income tax	4,012.9
Income tax expense	(1,596.9)
Profit for the year	2,416.0

	Shoes and footwear products *RMB million*	Sportswear and apparel products *RMB million*	Total reportable segments *RMB million*	Unallocated *RMB million*	Total *RMB million*
Other segment information					
Depreciation on property, plant and equipment	620.0	413.8	1,033.8	52.4	1,086.2
Amortization of land use rights	6.0	3.7	9.7	22.8	32.5
Depreciation on investment properties	–	–	–	6.5	6.5
Amortization of intangible assets	36.2	45.5	81.7	–	81.7
(Gain)/loss on disposal of property, plant and equipment and land use rights	(5.9)	1.2	(4.7)	–	(4.7)
Write-off of property, plant and equipment	8.4	5.9	14.3	–	14.3
Gain on partial disposal of interest in an associate	–	–	–	121.8	121.8
Dilution gain on interest in an associate	–	–	–	38.5	38.5
Impairment losses/(reversal of impairment) of inventories	35.0	(9.0)	26.0	–	26.0
Impairment of intangible assets	1,103.3	–	1,103.3	–	1,103.3
Employee share-based compensation expenses	236.9	193.8	430.7	–	430.7
Additions to non-current assets (excluding acquisition of additional interest in an associate and available-for-sale financial assets)	442.7	647.7	1,090.4	250.7	1,341.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

	Year ended 29 February 2016				
	Shoes and footwear products *RMB million*	Sportswear and apparel products *RMB million*	Total reportable segments *RMB million*	Unallocated *RMB million*	Total *RMB million*
Revenue					
Sales of goods	21,074.2	19,495.0	40,569.2	–	40,569.2
Commissions from concessionaire sales	–	221.0	221.0	–	221.0
	21,074.2	19,716.0	40,790.2	–	40,790.2
Results of reportable segments	3,943.9	1,742.4	5,686.3	–	5,686.3
Reconciliation of results of reportable segments to profit for the year					
Results of reportable segments					5,686.3
Amortization of intangible assets					(90.6)
Impairment of intangible assets					(1,356.4)
Unallocated income					41.0
Unallocated expenses					(78.8)
Operating profit					4,201.5
Finance income					379.1
Finance costs					(111.2)
Share of results of associates and a joint venture					71.8
Profit before income tax					4,541.2
Income tax expense					(1,596.1)
Profit for the year					2,945.1
Other segment information					
Depreciation on property, plant and equipment	600.1	324.2	924.3	33.0	957.3
Amortization of land use rights	6.9	3.7	10.6	17.8	28.4
Depreciation on investment properties	–	–	–	8.1	8.1
Amortization of intangible assets	52.3	38.3	90.6	–	90.6
(Gain)/loss on disposal of property, plant and equipment and land use rights	(8.0)	0.7	(7.3)	–	(7.3)
Write-off of property, plant and equipment	9.1	1.7	10.8	–	10.8
Impairment losses of inventories	94.6	32.4	127.0	–	127.0
Impairment of intangible assets	1,356.4	–	1,356.4	–	1,356.4
Employee share-based compensation expenses	84.3	69.0	153.3	–	153.3
Additions to non-current assets (excluding acquisition of a business and an associate)	525.6	469.6	995.2	365.3	1,360.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

	As at 28 February 2017				
	Shoes and footwear products *RMB million*	Sportswear and apparel products *RMB million*	Total reportable segments *RMB million*	Unallocated *RMB million*	Total *RMB million*
Segment assets	11,213.7	9,540.4	20,754.1	–	20,754.1
Goodwill	–	1,020.6	1,020.6	–	1,020.6
Other intangible assets	20.5	356.7	377.2	–	377.2
Inter-segment balances elimination	(1,372.5)	–	(1,372.5)	–	(1,372.5)
	9,861.7	10,917.7	20,779.4	–	20,779.4
Investment properties	–	–	–	236.9	236.9
Term deposits with initial terms of over three months	–	–	–	5,006.3	5,006.3
Deferred income tax assets	–	–	–	457.2	457.2
Interests in associates and a joint venture	–	–	–	883.5	883.5
Available-for-sale financial assets	–	–	–	181.4	181.4
Other corporate assets	–	–	–	4,200.9	4,200.9
Total assets per consolidated balance sheet	9,861.7	10,917.7	20,779.4	10,966.2	31,745.6
Segment liabilities	1,890.3	3,152.0	5,042.3	–	5,042.3
Inter-segment balances elimination	–	(1,372.5)	(1,372.5)	–	(1,372.5)
	1,890.3	1,779.5	3,669.8	–	3,669.8
Current income tax liabilities	–	–	–	1,328.8	1,328.8
Deferred income tax liabilities	–	–	–	39.4	39.4
Other corporate liabilities	–	–	–	84.0	84.0
Total liabilities per consolidated balance sheet	1,890.3	1,779.5	3,669.8	1,452.2	5,122.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION (Continued)

	As at 29 February 2016				
	Shoes and footwear products *RMB million*	Sportswear and apparel products *RMB million*	Total reportable segments *RMB million*	Unallocated *RMB million*	Total *RMB million*
Segment assets	12,338.1	7,448.5	19,786.6	–	19,786.6
Goodwill	782.2	1,020.6	1,802.8	–	1,802.8
Other intangible assets	377.8	402.2	780.0	–	780.0
Inter-segment balances elimination	(1,428.3)	–	(1,428.3)	–	(1,428.3)
	12,069.8	8,871.3	20,941.1	–	20,941.1
Investment properties	–	–	–	241.6	241.6
Term deposits with initial terms of over three months	–	–	–	23.0	23.0
Structured bank deposits	–	–	–	4,629.8	4,629.8
Deferred income tax assets	–	–	–	457.7	457.7
Interests in associates and a joint venture	–	–	–	946.2	946.2
Other corporate assets	–	–	–	3,815.4	3,815.4
Total assets per consolidated balance sheet	12,069.8	8,871.3	20,941.1	10,113.7	31,054.8
Segment liabilities	1,867.6	2,627.7	4,495.3	–	4,495.3
Inter-segment balances elimination	–	(1,428.3)	(1,428.3)	–	(1,428.3)
	1,867.6	1,199.4	3,067.0	–	3,067.0
Short-term borrowings	–	–	–	860.6	860.6
Current income tax liabilities	–	–	–	1,665.9	1,665.9
Deferred income tax liabilities	–	–	–	122.5	122.5
Other corporate liabilities	–	–	–	52.8	52.8
Total liabilities per consolidated balance sheet	1,867.6	1,199.4	3,067.0	2,701.8	5,768.8

5 SEGMENT INFORMATION (Continued)

The Group's revenue is mainly derived from customers located in the PRC. An analysis of the Group's revenue by location of customers is as follows:

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Revenue		
The PRC	**40,609.8**	39,469.6
Hong Kong and Macau	**876.5**	1,004.6
Other locations	**220.2**	316.0
	41,706.5	40,790.2

An analysis of the Group's non-current assets (other than available-for-sale financial assets and deferred income tax assets) by location of assets is as follows:

	The PRC RMB million	Hong Kong and Macau RMB million	Other locations RMB million	Total RMB million
As at 28 February 2017				
Non-current assets				
Property, plant and equipment	**4,368.3**	**302.4**	**–**	**4,670.7**
Land use rights	**1,533.0**	**–**	**–**	**1,533.0**
Investment properties	**190.0**	**46.9**	**–**	**236.9**
Intangible assets	**1,397.8**	**–**	**–**	**1,397.8**
Interests in associates and a joint venture	**107.8**	**–**	**775.7**	**883.5**
Long-term deposits, prepayments and other assets	**403.6**	**32.9**	**5.3**	**441.8**
As at 29 February 2016				
Non-current assets				
Property, plant and equipment	4,253.3	308.0	–	4,561.3
Land use rights	1,525.3	–	–	1,525.3
Investment properties	195.0	46.6	–	241.6
Intangible assets	2,582.8	–	–	2,582.8
Interests in associates and a joint venture	117.8	–	828.4	946.2
Long-term deposits, prepayments and other assets	315.9	44.3	33.2	393.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 OTHER INCOME

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Rental income	**27.1**	41.0
Government incentives *(note)*	**470.5**	443.5
	497.6	484.5

Note: Government incentives comprise subsidies received from various local governments in the PRC.

7 OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Cost of inventories recognized as expenses included in cost of sales	**19,022.7**	17,697.6
Depreciation on property, plant and equipment *(Note 14)*	**1,086.2**	957.3
Amortization of land use rights *(Note 15)*	**32.5**	28.4
Depreciation on investment properties *(Note 16)*	**6.5**	8.1
Amortization of intangible assets *(Note 17)*	**81.7**	90.6
Operating lease rentals (mainly including concessionaire fees) in respect of land and buildings	**8,024.1**	8,264.6
Staff costs (including directors' emoluments) *(Note 12)*	**7,419.1**	6,979.0
Gain on disposal of property, plant and equipment and land use rights *(Note 33(c))*	**(4.7)**	(7.3)
Write-off of property, plant and equipment *(Note 14)*	**14.3**	10.8
Impairment losses of inventories	**26.0**	127.0
Impairment of intangible assets *(Note 17)*	**1,103.3**	1,356.4
Auditor's remuneration	**13.7**	11.5

Cost of inventories recognized as expenses mainly include purchases, direct employee compensation costs, subcontracting costs and manufacturing overheads.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 FINANCE INCOME, NET

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Interest income from bank deposits	**83.0**	36.5
Interest income from structured bank deposits	**71.4**	342.6
Net foreign exchange gains	**136.8**	–
Finance income	**291.2**	379.1
Interest expense on short-term bank borrowings	**(0.1)**	(45.9)
Net foreign exchange losses	**–**	(65.3)
Finance costs	**(0.1)**	(111.2)
Finance income, net	**291.1**	267.9

9 INCOME TAX EXPENSE

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Current income tax		
– PRC corporate income tax	**1,677.6**	1,679.3
– Hong Kong profits tax	**5.3**	7.0
– Macau income tax	**0.9**	3.4
(Over)/under-provision in prior years		
– PRC corporate income tax	**(5.4)**	(5.3)
– Hong Kong profits tax	**1.4**	(0.1)
– Macau income tax	**(0.3)**	(0.3)
Deferred income tax *(Note 21)*	**(82.6)**	(87.9)
	1,596.9	1,596.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 INCOME TAX EXPENSE (Continued)

During the year, substantially all of the PRC established subsidiaries of the Company are subject to the PRC corporate income tax rate of 25% (2016: 25%) except that certain subsidiaries are subject to a preferential tax rate of 15% (2016: 15%).

Hong Kong profits tax and Macau income tax have been provided for at the rate of 16.5% (2016: 16.5%) and at tax rates prevailing in Macau, respectively on the estimated assessable profit for the year.

The tax charge on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to results of the consolidated companies as follows:

	Year ended	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Profit before income tax	**4,012.9**	4,541.2
Tax calculated at the applicable domestic tax rate of respective companies *(note)*	**918.2**	1,058.2
Non-taxable income	**(39.5)**	(31.1)
Expenses not deductible for tax purposes	**336.8**	325.2
Tax losses for which no deferred income tax assets were recognized	**86.9**	58.9
Utilization of previously unrecognized tax losses	**(13.1)**	(13.8)
Over-provision in prior years	**(4.3)**	(5.7)
Withholding tax	**311.9**	204.4
	1,596.9	1,596.1

Note: The weighted average applicable tax rate for the year is 22.9% (2016: 23.3%). The fluctuation in the weighted average applicable tax rate arose mainly because of the change in the relative profitability of the companies within the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

		Year ended 28 February 2017	Year ended 29 February 2016
Profit attributable to equity holders of the Company	*RMB million*	**2,403.4**	2,934.1
Weighted average number of ordinary shares for the purpose of basic earnings per share	*thousand of shares*	**8,181,233**	8,181,233
Basic earnings per share	*RMB cents*	**29.38**	35.86

Diluted

The awarded shares granted by the Company (Note 31) have potential dilutive effect on the earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming the conversion of all potential dilutive ordinary shares arising from awarded shares granted by the Company. No adjustment is made to earnings for the year.

		Year ended 28 February 2017	Year ended 29 February 2016
Profit attributable to equity holders of the Company	*RMB million*	**2,403.4**	2,934.1
Weighted average number of ordinary shares for the purpose of basic earnings per share	*thousand of shares*	**8,181,233**	8,181,233
Adjustment for awarded shares granted	*thousand of shares*	**253,000**	253,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	*thousand of shares*	**8,434,233**	8,434,233
Diluted earnings per share	*RMB cents*	**28.50**	34.79

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 DIVIDENDS

	Year ended	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Interim dividend, paid, of RMB12.0 cents (2016: RMB16.0 cents) per ordinary share *(note (b) and (d))*	**1,012.1**	1,349.5
Final dividend, proposed, of RMB6.0 cents (2016: RMB6.0 cents) per ordinary share *(note (a) and (c))*	**506.1**	506.1
	1,518.2	1,855.6

Notes:

(a) At a meeting held on 15 May 2017, the directors recommended a final dividend of RMB6.0 cents per ordinary share (totaling RMB506.1 million) for the year ended 28 February 2017. This proposed dividend is not reflected as dividend payable in the financial statements, but will be reflected as an appropriation of retained earnings for the year ending 28 February 2018.

(b) At a meeting held on 24 October 2016, the directors declared an interim dividend of RMB12.0 cents per ordinary share (totaling RMB1,012.1 million) for the year ended 28 February 2017, which was paid during the year and has been reflected as an appropriation of retained earnings for the year ended 28 February 2017.

(c) At a meeting held on 24 May 2016, the directors recommended a final dividend of RMB6.0 cents per ordinary share (totaling RMB506.1 million) for the year ended 29 February 2016, which was paid during the year and has been reflected as an appropriation of retained earnings for the year ended 28 February 2017.

(d) At a meeting held on 26 October 2015, the directors declared an interim dividend of RMB16.0 cents per ordinary share (totaling RMB1,349.5 million) for the year ended 29 February 2016, which was paid and has been reflected as an appropriation of retained earnings for the year ended 29 February 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Wages, salaries and bonuses	**5,786.3**	5,654.1
Pensions costs – defined contribution plans *(note)*	**939.0**	907.5
Employee share-based compensation expense *(Note 31)*	**430.7**	153.3
Welfare and other expenses	**263.1**	264.1
	7,419.1	6,979.0

Note:

The PRC defined contribution plan

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement schemes for its relevant employees in the PRC. The Group's relevant employees make monthly contributions to the schemes at 8% to 11% of the relevant income (comprising wages, salaries, allowances and bonuses), while the Group contributes 10% to 35% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees.

Hong Kong defined contribution plan

The Group has a defined contribution pension scheme, the Mandatory Provident Fund Scheme (the "MPF Scheme"), for its employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group under independently administered funds.

Under the MPF Scheme, each of the Group (the employer) and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' relevant income, as defined in the Mandatory Provident Fund Scheme Ordinance. Both the Group's and the employee's monthly contributions are subject to a cap of HK$1,500 and contributions beyond these amounts are voluntary. The contributions are fully and immediately vested upon payment.

The Group has no further obligations for post-retirement benefits in relation to its Hong Kong employees beyond the contributions to the MPF Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 BENEFITS AND INTERESTS OF DIRECTORS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT REMUNERATION BY BAND

(a) Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and Hong Kong Listing Rules)

The remuneration of each Director and the Chief Executive Officer of the Company is set out below:

	Fees	Salaries[1]	Bonuses	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 28 February 2017					
Executive Directors					
Sheng Baijiao [2]	**–**	**3,345**	**3,386**	**15**	**6,746**
Tang King Loy	**–**	**3,398**	**849**	**15**	**4,262**
Sheng Fang	**–**	**2,436**	**2,298**	**67**	**4,801**
Yu Wu [3]	**–**	**2,435**	**2,685**	**55**	**5,175**
Non-executive Directors					
Tang Yiu	**–**	**–**	**–**	**–**	**–**
Tang Wai Lam [4]	**–**	**–**	**–**	**–**	**–**
Hu Xiaoling	**–**	**–**	**–**	**–**	**–**
Independent Non-executive Directors					
Chan Yu Ling, Abraham	**150**	**–**	**–**	**–**	**150**
Ho Kwok Wah, George	**150**	**–**	**–**	**–**	**150**
Xue Qiuzhi	**150**	**–**	**–**	**–**	**150**
Gao Yu	**150**	**–**	**–**	**–**	**150**
	600	**11,614**	**9,218**	**152**	**21,584**
Year ended 29 February 2016					
Executive Directors					
Sheng Baijiao [2]	–	3,284	3,371	15	6,670
Tang King Loy	–	3,083	1,072	15	4,170
Sheng Fang	–	2,387	1,857	83	4,327
Yu Wu [3]	–	1,591	1,857	35	3,483
Non-executive Directors					
Tang Yiu	–	–	–	–	–
Tang Wai Lam [4]	–	–	–	–	–
Hu Xiaoling	–	–	–	–	–
Independent Non-executive Directors					
Chan Yu Ling, Abraham	150	–	–	–	150
Ho Kwok Wah, George	150	–	–	–	150
Xue Qiuzhi	150	–	–	–	150
Gao Yu	150	–	–	–	150
	600	10,345	8,157	148	19,250

(1) Includes basic salaries, housing allowance, other allowances and benefits in kind.
(2) Mr. Sheng Baijiao is the Chief Executive Officer of the Company.
(3) Appointed as Executive Director effective from 28 July 2015.
(4) Appointed as Non-executive Director effective from 28 July 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 BENEFITS AND INTERESTS OF DIRECTORS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT REMUNERATION BY BAND (Continued)

(a) Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and Hong Kong Listing Rules) (Continued)

Directors' retirement benefits

None of the directors received or will receive any retirement benefits during the year (2016: Nil).

Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2016: Nil).

Consideration provided to third parties for making available directors' services

During the year ended 28 February 2017, the Company did not pay consideration to any third parties for making available directors' services (2016: Nil).

Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled bodies corporate by and connected entities with such directors subsisted at the end of the year or at any time during the year.

Directors' material interests in transactions, arrangements or contracts

Save as disclosed elsewhere in these consolidated financial statements, no other significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 BENEFITS AND INTERESTS OF DIRECTORS, FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT REMUNERATION BY BAND (Continued)

(b) Five highest paid individuals

The five highest paid individuals included 4 (2016: 4) Directors, whose emoluments are included in the above disclosure. The emoluments of the remaining 1 (2016: 1) individual during the year are as follows:

	Year ended	
	28 February 2017	29 February 2016
	RMB'million	*RMB'million*
Salaries, allowances and benefits in kind	**1,630**	2,391
Bonuses	**944**	198
Pensions costs – defined contribution plans	**15**	15
	2,589	2,604

	Number of individuals Year ended	
	28 February 2017	29 February 2016
HK$3,000,001 to HK$3,500,000	**1**	1

During the year, no emoluments have been paid to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2016: Nil).

(c) Senior management remuneration by band

The senior management's remuneration, other than the directors of the Company, by band are as follows:

	Number of individuals Year ended	
	28 February 2017	29 February 2016
HK$2,500,001 to HK$3,000,000	**2**	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB million	Leasehold improvements RMB million	Plant and equipment RMB million	Furniture and fixtures and other equipment RMB million	Motor vehicles RMB million	Construction in progress RMB million	Total RMB million
Cost							
As at 1 March 2015	2,369.3	2,780.6	590.9	633.0	139.0	668.6	7,181.4
Acquisition of a business *(Note 32)*	–	0.3	–	0.2	–	–	0.5
Additions	12.2	831.1	9.0	120.1	11.3	350.1	1,333.8
Transfer upon completion	590.3	–	–	–	–	(590.3)	–
Disposals	(22.6)	(3.8)	(2.7)	(15.7)	(7.2)	–	(52.0)
Transfer from investment properties *(Note 16)*	74.9	–	–	–	–	–	74.9
Written-off	–	(461.5)	–	(3.4)	–	–	(464.9)
Exchange differences	14.1	5.2	0.7	0.9	0.1	–	21.0
As at 29 February 2016 and 1 March 2016	**3,038.2**	**3,151.9**	**597.9**	**735.1**	**143.2**	**428.4**	**8,094.7**
Additions	**–**	**996.1**	**8.4**	**84.6**	**11.0**	**146.9**	**1,247.0**
Transfer upon completion	**77.4**	**–**	**–**	**–**	**–**	**(77.4)**	**–**
Disposals	**(37.1)**	**(1.9)**	**(9.6)**	**(30.3)**	**(6.0)**	**–**	**(84.9)**
Written-off	**–**	**(594.6)**	**–**	**(3.8)**	**(0.1)**	**–**	**(598.5)**
Exchange differences	**13.7**	**5.0**	**0.7**	**0.9**	**0.1**	**–**	**20.4**
As at 28 February 2017	**3,092.2**	**3,556.5**	**597.4**	**786.5**	**148.2**	**497.9**	**8,678.7**
Accumulated depreciation							
As at 1 March 2015	443.7	1,822.0	269.6	415.0	89.6	–	3,039.9
Charge for the year	104.8	711.1	43.7	82.5	15.2	–	957.3
Disposals	–	(1.8)	(2.0)	(13.4)	(6.3)	–	(23.5)
Transfer from investment properties *(Note 16)*	5.6	–	–	–	–	–	5.6
Written-off	–	(450.9)	–	(3.2)	–	–	(454.1)
Exchange differences	2.2	4.7	0.3	0.9	0.1	–	8.2
As at 29 February 2016 and 1 March 2016	**556.3**	**2,085.1**	**311.6**	**481.8**	**98.6**	**–**	**3,533.4**
Charge for the year	**125.8**	**820.9**	**40.8**	**85.5**	**13.2**	**–**	**1,086.2**
Disposals	**–**	**–**	**(7.3)**	**(23.6)**	**(5.4)**	**–**	**(36.3)**
Written-off	**–**	**(580.3)**	**–**	**(3.8)**	**(0.1)**	**–**	**(584.2)**
Exchange differences	**2.8**	**4.8**	**0.4**	**0.8**	**0.1**	**–**	**8.9**
As at 28 February 2017	**684.9**	**2,330.5**	**345.5**	**540.7**	**106.4**	**–**	**4,008.0**
Net book value							
As at 28 February 2017	**2,407.3**	**1,226.0**	**251.9**	**245.8**	**41.8**	**497.9**	**4,670.7**
As at 29 February 2016	2,481.9	1,066.8	286.3	253.3	44.6	428.4	4,561.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year, depreciation of property, plant and equipment has been charged to the consolidated income statement as follows:

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Cost of Sales	**65.5**	67.5
Selling and distribution expenses	**784.5**	655.2
General and administrative expenses	**236.2**	234.6
	1,086.2	957.3

15 LAND USE RIGHTS

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Cost		
As at 1 March	**1,729.0**	1,733.1
Additions	**73.6**	–
Disposals	**(33.4)**	(4.1)
As at 28/29 February	**1,769.2**	1,729.0
Accumulated amortization		
As at 1 March	**203.7**	175.3
Amortization for the year	**32.5**	28.4
As at 28/29 February	**236.2**	203.7
Net book value as at 28/29 February	**1,533.0**	1,525.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 INVESTMENT PROPERTIES

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Cost		
As at 1 March	**266.1**	338.9
Transfer to property, plant and equipment *(Note 14)*	**–**	(74.9)
Exchange differences	**2.0**	2.1
As at 28/29 February	**268.1**	266.1
Accumulated depreciation		
As at 1 March	**24.5**	21.8
Charge for the year	**6.5**	8.1
Transfer to property, plant and equipment *(Note 14)*	**–**	(5.6)
Exchange differences	**0.2**	0.2
As at 28/29 February	**31.2**	24.5
Net book value as at 28/29 February	**236.9**	241.6

The valuation of the investment properties as at 28 February 2017 (including the related land use rights with net book value of RMB279.5 million (2016: RMB286.8 million)) was RMB1,099.5 million (2016: RMB924.4 million), which was determined by the directors of the Company on an open market value basis using the sale comparison approach. This valuation is measured at 28 February 2017 using significant other observable inputs, which is categorized as level 2 in the fair value hierarchy. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

Direct outgoings from investment properties of RMB17.8 million (2016: RMB22.7 million) that generated rental income had been included in other expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INTANGIBLE ASSETS

	Goodwill	Distribution and license contracts	Trademarks	Computer software	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Cost					
As at 1 March 2015	2,930.2	688.2	755.3	79.0	4,452.7
Acquisition of a business *(Note 32)*	–	–	206.7	–	206.7
Additions	–	–	–	10.9	10.9
As at 29 February 2016, 1 March 2016 and 28 February 2017	**2,930.2**	**688.2**	**962.0**	**89.9**	**4,670.3**
Accumulated amortization					
As at 1 March 2015	–	424.4	170.3	45.8	640.5
Amortization for the year	–	48.5	30.0	12.1	90.6
As at 29 February 2016 and 1 March 2016	**–**	**472.9**	**200.3**	**57.9**	**731.1**
Amortization for the year	**–**	**49.5**	**22.3**	**9.9**	**81.7**
As at 28 February 2017	**–**	**522.4**	**222.6**	**67.8**	**812.8**
Accumulated impairment					
As at 1 March 2015	–	–	–	–	–
Impairment	1,127.4	–	229.0	–	1,356.4
As at 29 February 2016 and 1 March 2016	**1,127.4**	**–**	**229.0**	**–**	**1,356.4**
Impairment	**782.2**	**10.6**	**310.5**	**–**	**1,103.3**
As at 28 February 2017	**1,909.6**	**10.6**	**539.5**	**–**	**2,459.7**
Net book value					
As at 28 February 2017	**1,020.6**	**155.2**	**199.9**	**22.1**	**1,397.8**
As at 29 February 2016	1,802.8	215.3	532.7	32.0	2,582.8

During the year, amortization expense of RMB81.7 million (2016: RMB90.6 million) has been included in general and administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INTANGIBLE ASSETS (Continued)

Goodwill is allocated to the Group's CGUs. An operating segment-level summary of the goodwill allocation is presented below:

	Beginning of the year *RMB million*	Impairment *RMB million*	End of the year *RMB million*
As at 28 February 2017			
Shoes and footwear products			
The PRC	**782.2**	**(782.2)**	**–**
Sportswear and apparel products	**1,020.6**	**–**	**1,020.6**
	1,802.8	**(782.2)**	**1,020.6**
As at 29 February 2016			
Shoes and footwear products			
The PRC	1,837.8	(1,055.6)	782.2
Hong Kong and Macau	71.8	(71.8)	–
Sportswear and apparel products	1,020.6	–	1,020.6
	2,930.2	(1,127.4)	1,802.8

Impairment review on goodwill of the Group has been conducted by management as at 28 February 2017 and 29 February 2016 according to IAS 36 "Impairment of assets". For the purposes of impairment review, the recoverable amount of goodwill is determined based on value-in-use calculations. The value-in-use calculations use cash flow projections based on financial budgets approved by management for the purposes of impairment reviews covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated annual growth of not more than 2% (2016: 2%). The growth rates used do not exceed the industry growth forecast for the market in which the Group operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 INTANGIBLE ASSETS (Continued)

Key assumptions used for value-in-use calculations for impairment review purpose as at 28 February 2017 and their corresponding comparative information are as follows:

	Shoes and footwear products The PRC	Sportswear and apparel products The PRC
As at 28 February 2017		
Gross profit margin	**59%-68%**	**43%**
5 years annual growth rate	**2%**	**6%**
As at 29 February 2016		
Gross profit margin	61%-68%	43%
5 years annual growth rate	4%	8%

The discount rates used ranged from 15.8% to 18.6% (2016: 15.5% to 15.7%) and of 16.9% (2016: 16.7%) for shoes and footwear products segment and sportswear and apparel products segment respectively are pre-tax and reflect market assessments of the time value and the specific risks relating to the industry. The budgeted gross profit margin was determined by management based on past performance and its expectation for market development.

During the year ended 28 February 2017, consumer retail conditions in Mainland China continued to deteriorate. The deteriorating performance in the shoes and footwear business has resulted in an impairment of its intangible assets for a total of RMB1,103.3 million, including impairment of goodwill and other intangible assets of RMB782.2 million and RMB321.1 million respectively. These goodwill and related other intangible assets were mainly recognized from the previous acquisitions of businesses of Mirabell and Senda.

As at 28 February 2017, management believes that any reasonably foreseeable change in any of the above key assumptions of the sportswear and apparel products segment would not cause the carrying amount of goodwill to exceed the recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 INTERESTS IN ASSOCIATES AND A JOINT VENTURE

The amounts recognized in the consolidated balance sheet are as follows:

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Associates	**859.7**	915.6
A joint venture	**23.8**	30.6
	883.5	946.2

	Year ended	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
As at 1 March	**946.2**	633.1
Acquisition of an associate *(note (a))*	**–**	200.5
Acquisition of additional interest in an associate	**38.1**	–
Partial disposal of interest in an associate *(note (b))*	**(212.0)**	–
Dilution gain on interest in an associate *(note (b))*	**38.5**	–
Share of results of associates and a joint venture	**6.3**	71.8
Exchange differences	**66.4**	40.8
As at 28/29 February	**883.5**	946.2

Notes:

(a) In December 2015, the Group acquired 28.55% of the total issued and outstanding share capital of Fashion Box S.p.A., a company incorporated in Italy and principally engaged in trading and retailing of apparel and accessories products, for a cash consideration of EUR28.2 million (approximately RMB200.5 million) from an independent third party.

(b) Baroque Japan Limited, an associate of the Group, completed its initial public offering ("IPO") on the Tokyo Stock Exchange on 1 November 2016. Baroque Japan Limited allotted and issued 42,000,000 new shares upon the IPO and the Group disposed of certain existing shares of Baroque Japan Limited as part of the IPO for a net cash proceed of RMB333.8 million. The Group recognized a gain on partial disposal of interest in an associate of RMB121.8 million and a gain on dilution of interest in an associate of RMB38.5 million as a result of the new shares issued by Baroque Japan Limited upon its IPO.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 INTERESTS IN ASSOCIATES AND A JOINT VENTURE (Continued)

Notes: (Continued)

(c) Particulars of the associates and a joint venture of the Group are set out in Note 39. None of these entities are currently considered material to the Group.

(d) Summarized financial information in respect of the Group's associates and a joint venture is set out below:

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Total assets	**5,429.9**	4,704.9
Total liabilities	**(2,542.6)**	(2,516.8)

	Year ended	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Total revenue	**6,523.1**	4,156.7
Total profits less losses	**111.0**	219.8
Share of results of associates and a joint venture	**6.3**	71.8

(e) There are no contingent liabilities relating to the Group's interests in the associates and the joint venture and these entities also had no material contingent liabilities.

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Unlisted investment fund		
As at 1 March	**–**	–
Additions	**181.4**	–
As at 28/29 February	**181.4**	–

Note:

On 23 August 2016, a wholly-owned subsidiary of the Company and Hero Gain Holdings Limited, a company of which Mr. Sheng Baijiao, Mr. Sheng Fang, and Mr. Yu Wu, the Executive Directors of the Company, collectively hold more than 30% of the issued shares, have each entered into a limited partnership agreement with Fengshion Capital Investment Fund GP, LP, on the same terms, for investing into Fengshion Capital Investment Fund, L.P (the "Fund"), a fund which has a primary objective of investing in the technology and consumer sector. Pursuant to the agreement, the Group committed to invest US$60.0 million (approximately RMB406.5 million) into the Fund, of which an amount of US$27.0 million (equivalent to RMB181.4 million) has already been contributed as of 28 February 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at	
	28 February 2017 *RMB million*	29 February 2016 *RMB million*
Non-current		
Rental deposits and prepayments	**280.7**	224.4
Prepayments for capital expenditures	**155.6**	135.1
Others	**5.5**	33.9
	441.8	393.4
Current		
Rental deposits and prepayments	**836.4**	818.9
Value-added tax recoverables	**233.8**	142.8
Other receivables	**276.0**	124.9
Other prepayments	**203.8**	179.0
Loan to an associate *(Note 36)*	**107.8**	–
Advance to a joint venture *(Note 36)*	**133.0**	95.1
	1,790.8	1,360.7

The carrying amounts of deposits and other receivables approximate their fair values.

21 DEFERRED INCOME TAXES

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date.

The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	As at	
	28 February 2017 *RMB million*	29 February 2016 *RMB million*
Net deferred income tax assets recognized on the balance sheet	**457.2**	457.7
Net deferred income tax liabilities recognized on the balance sheet	**(39.4)**	(122.5)
	417.8	335.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 DEFERRED INCOME TAXES (Continued)

The movements in the deferred income tax assets/(liabilities) accounts are as follows:

	Unrealized profit and impairment losses on closing inventories	Distribution and license contracts	Trademarks	Tax losses	Others	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
As at 1 March 2015	405.1	(60.4)	(134.3)	30.1	6.8	247.3
Credited/(charged) to the income statement *(Note 9)*	21.1	10.3	62.5	(6.0)	–	87.9
As at 29 February 2016 and 1 March 2016	426.2	(50.1)	(71.8)	24.1	6.8	335.2
(Charged)/credited to the income statement *(Note 9)*	**(4.6)**	**11.4**	**71.8**	**(7.5)**	**11.5**	**82.6**
As at 28 February 2017	**421.6**	**(38.7)**	**–**	**16.6**	**18.3**	**417.8**

As at 28 February 2017 and 29 February 2016, except that the deferred income tax assets on unrealized profit and impairment losses on closing inventories were expected to be recoverable within 12 months, substantially all remaining balances of other deferred income tax assets and liabilities were expected to be recovered or settled after more than 12 months.

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. As at 28 February 2017, the Group had unrecognized tax losses to be carried forward against future taxable income amounted to RMB657.4 million (2016: RMB320.5 million).

The expiry of unrecognized tax losses is as follows:

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Tax losses expiring after 5 years	**118.6**	113.5
Tax losses expiring within 5 years	**538.8**	207.0
	657.4	320.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 DEFERRED INCOME TAXES (Continued)

As at 28 February 2017, the potential deferred income tax assets in respect of the above unrecognized tax losses amounted to RMB172.7 million (2016: RMB88.7 million).

Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Company's PRC subsidiaries from 1 January 2008. Deferred income tax liabilities of approximately RMB473.8 million (2016: approximately RMB610.2 million) have not been provided for at the applicable tax rate of 5% (2016: 5%) in these consolidated financial statements in respect of temporary differences attributable to undistributed profits of the Company's PRC subsidiaries as the Group controls the dividend policy of these PRC subsidiaries and it is probable that these temporary differences will not reverse in the foreseeable future.

22 INVENTORIES

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Raw materials	**241.7**	267.3
Work in progress	**66.5**	65.9
Finished goods	**7,858.6**	6,806.6
Consumables	**3.1**	4.9
	8,169.9	7,144.7
Less: provision for impairment losses	**(293.0)**	(267.3)
	7,876.9	6,877.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 TRADE RECEIVABLES

The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date while the sales to corporate customers are generally on credit terms ranging from 0 to 30 days. As at 28 February 2017, the aging analysis of trade receivables, based on invoice date, is as follows:

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
0 to 30 days	**3,545.1**	4,202.8
31 to 60 days	**65.9**	74.8
61 to 90 days	**34.4**	20.2
Over 90 days	**34.0**	29.1
	3,679.4	4,326.9

The carrying amounts of trade receivables approximate their fair values and are denominated in the following currencies:

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
RMB	**3,653.0**	4,299.6
HK$	**26.1**	27.3
Other currencies	**0.3**	–
	3,679.4	4,326.9

As at 28 February 2017, trade receivables of RMB3,611.0 million (2016: RMB4,277.6 million) were neither past due nor impaired. The credit quality of these trade receivables has been assessed with reference to historical information about the counterparty default rates. The existing counterparties did not have defaults in the past.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 TRADE RECEIVABLES (Continued)

As at 28 February 2017, trade receivables of RMB68.4 million (2016: RMB49.3 million) were past due but for which no impairment loss has been provided by the Group. These trade receivables relate to a number of independent debtors for whom there is no recent history of default. The Group does not hold any collateral as security over these debtors. The ageing analysis of the trade receivables which are past due but not impaired is as follows:

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
61 to 90 days	**34.4**	20.2
91 to 150 days	**34.0**	29.1
	68.4	49.3

During the year, no trade receivables were impaired and written off (2016: Nil). No trade receivables are considered to be impaired as at 28 February 2017 and 29 February 2016.

24 STRUCTURED BANK DEPOSITS

The Group did not have any structured bank deposits as at 28 February 2017.

As at 29 February 2016, the Group's structured bank deposits were placed with major state-owned banks in the PRC and international banks with presence in the PRC, with fixed maturities and fixed interest rates or fixed plus floating interest rates. As at 29 February 2016, RMB524.0 million of structured Bank deposit were pledged for other short-term borrowings of the same amount (Note 28).

As at 29 February 2016, approximately 84% of the Group's structured bank deposits will mature within 6 months, of which RMB84.0 million was qualified as cash and cash equivalents (Note 33(d)). The weighted average effective interest rate of the Group's structured bank deposits as at 29 February 2016 was 5.05% per annum. These balances were denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25 BANK BALANCES AND CASH AND TERM DEPOSITS

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Bank balances and cash	**2,742.6**	2,617.6
Term deposits with initial terms of less than three months	**847.3**	511.1
Term deposits with initial terms over three months	**5,006.3**	23.0
	8,596.2	3,151.7
Denominated in:		
RMB	**2,427.9**	1,664.5
HK$	**1,751.7**	1,452.5
US$	**4,376.9**	8.8
Other currencies	**39.7**	25.9
	8,596.2	3,151.7

As at 28 February 2017, the weighted average effective interest rate of the Group's term deposits with initial terms of less than three months and over three months were 2.03% (2016: 0.75%) and 1.68% (2016: 2.12%) per annum respectively.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The conversion of the RMB denominated balances maintained in the PRC into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 TRADE PAYABLES

The credit periods granted by suppliers generally range from 0 to 60 days. As at 28 February 2017, the aging analysis of trade payables is as follows:

	As at 28 February 2017 RMB million	As at 29 February 2016 RMB million
0 to 30 days	**864.7**	694.0
31 to 60 days	**199.2**	228.4
Over 60 days	**15.3**	34.5
	1,079.2	956.9

The carrying amounts of trade payables approximate their fair values and are denominated in the following currencies:

	As at 28 February 2017 RMB million	As at 29 February 2016 RMB million
RMB	**1,054.2**	937.0
HK$	**25.0**	13.2
Other currencies	**–**	6.7
	1,079.2	956.9

27 OTHER PAYABLES, ACCRUALS AND OTHER LIABILITIES

	As at 28 February 2017 RMB million	As at 29 February 2016 RMB million
Accrued wages, salaries, bonuses and staff welfare	**913.0**	701.1
Value-added tax, business tax and other taxes payables	**605.7**	503.4
Customers' deposits	**650.4**	457.1
Other payables and accruals	**460.2**	450.4
	2,629.3	2,112.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 SHORT-TERM BORROWINGS

(a) The Group did not have any borrowings as at 28 February 2017. As at 29 February 2016, the Group's short-term borrowings comprised short-term bank borrowings and other short-term borrowings of RMB336.6 million and RMB524.0 million, which were denominated in HK$ and RMB, respectively.

(b) As at 29 February 2016, the Group's short-term bank borrowings were unsecured and carrying interest at floating rates with weighted average effective interest rate of 1.17% per annum. The carrying amount of the Group's short-term bank borrowings are denominated in Hong Kong dollars and approximate their fair values.

(c) As at 29 February 2016, the Group's other short-term borrowings were secured by certain structured bank deposits of RMB524.0 million (Note 24).

(d) The Group's banking facilities, including borrowings, trade finance and other general banking facilities are guaranteed as follows:

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Unguaranteed	**200.0**	1,585.0
Cross guarantees among subsidiaries of the Company	**1,411.1**	2,513.4
Guaranteed by the Company	**3,405.9**	4,461.0
Corresponding banking facilities utilized	**39.7**	596.2

29 SHARE CAPITAL

	Ordinary shares of HK$0.01 each	**Nominal amount**
	Number of shares	***RMB million***
Authorized:		
As at 1 March 2015, 29 February 2016 and 28 February 2017	**30,000,000,000**	**296.0**
Issued and fully paid:		
As at 1 March 2015, 29 February 2016 and 28 February 2017	**8,434,233,000**	**83.1**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 SHARE CAPITAL (Continued)

Shares held for Share Award Scheme

The Company operates the Share Award Scheme as detailed in Note 31 which is managed by a share scheme trustee, a structured entity (the "Share Scheme Trustee") established by the Company for the purpose of administrating and holding the Company's share acquired for the Share Award Scheme. According to the Share Award Scheme, which was approved by the Board of Directors on 26 May 2014 (the "Adoption Date"), the Board of Directors may from time to time determine the maximum number of ordinary shares of the Company which may be purchased by the Share Scheme Trustee in the open market on the Stock Exchange. At the initial stage, the maximum number of shares which may be purchased by the Share Scheme Trustee is 3% (equivalent to 253,026,990 shares) of the issued share capital of the Company at the Adoption date.

As at 28 February 2017 and 29 February 2016, the Share Scheme Trustee withheld 252,999,832 ordinary shares of the Company acquired from the open market with funds provided by the Company by way of contributions, which does not exceed the maximum number of shares that may be purchased as stated above.

30 RESERVES

(a) Movements in the reserves of the Group are set out in the consolidated statement of changes in equity.

(b) Under the Company Law. Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the merger reserve is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The merger reserve of the Group mainly represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of the subsidiaries transferred to the Company pursuant to the reorganization of the Group that took place in 2005.

(c) Statutory reserves are non-distributable and the transfers of these funds are determined by the Board of Directors of the relevant PRC subsidiaries in accordance with the relevant laws and regulations in the PRC.

31 SHARE BASED COMPENSATION

Share option scheme

Pursuant to a shareholders' resolution passed on 27 April 2007, the Company adopted a share option scheme (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide an incentive for Qualified Participants (defined below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders of the Company and to retain and attract high caliber business partners whose contributions are or may be beneficial to the growth and development of the Group.

Pursuant to the Share Option Scheme, the Board of Directors may at its discretion grant options to (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive directors (including independent non-executive directors) of the Company, any member of the Group or any Invested Entity ((i) and (ii) collectively referred to as "Eligible Employees"); (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, adviser, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the Board of Directors has contributed or will contribute to the Group (collectively referred to as "Qualified Participants").

The Share Option Scheme shall be valid and effective for 10 years from the date on which the shares of the Company first commenced trading on the Stock Exchange (the "Listing Date"). The maximum number of shares of the Company in which options may be granted under the Share Option Scheme or any other share option schemes as may be adopted by the Company shall not in aggregate exceed the number of shares that shall represent 10% of the total number of shares in issue of the Listing Date (equivalent to 823,190,000 shares), unless such scheme mandate limit is renewed by shareholders of the Company in a general meeting.

No options have been granted under the Share Option Scheme by the Group since its adoption and up to 28 February 2017.

Share Award Scheme

The Share Award Scheme was adopted by the Board of Directors on 26 May 2014. The purpose of the Share Award Scheme is to recognize and motivate the contribution of certain members of management of the Group and to provide incentives and help the Group in retaining its existing members of management and to provide them with a direct economic interest in attaining the long-term business objectives of the Group. The Board of Directors may from time to time at its absolute discretion select any of those eligible participants for participation in the scheme (the "Selected Participants"). The maximum aggregate nominal value of awarded shares which may be awarded to a Selected Participant under the Share Award Scheme shall not exceed 0.1% of the issued share capital of the Company at the date of such award. The vesting period of the awarded shares shall be determined by the Board of Directors.

31 SHARE BASED COMPENSATION (Continued)

Share Award Scheme (Continued)

As at 29 February 2016, a total number of 253,000,000 awarded shares have been granted to the Selected Participants, which are to be vested after the Selected Participants having completed a period of services in the Group of 10 years from the date of grant. The awarded shares will be transferred to the Selected Participants at nil consideration upon vested.

During the year ended 28 February 2017, 10,060,000 (2016: 7,960,000) awarded shares have been lapsed and 10,060,000 (2016: 7,960,000) awarded shares have been granted by the Group. As at 28 February 2017, the total number of awarded shares granted was 253,000,000. The fair value of the awarded shares was determined with reference to the market price of the Company's shares at the date of grant. The weighted average fair value of awarded shares granted during the year was approximately HK$4.9 (equivalent to approximately RMB4.3) (2016: HK$6.4 (equivalent to approximately RMB5.3)) per share.

During the year ended 28 February 2017, the Board of Directors approved to make certain amendments to the terms of the Share Award Scheme in order to enhance the effectiveness of the scheme. Effective 24 February 2017, the vesting period of the awarded shares was being modified such that 10% of all the awarded shares granted shall become vested on 1 March 2017 and thereafter 10% each of the awarded shares granted shall become vested at each of the nine consecutive anniversaries of the first vesting date. The Selected Participants are entitled to the awarded shares at nil consideration on the vesting date.

The amendment of the terms of the awarded shares granted has been accounted for as a modification for equity-settled awards retrospectively with the cumulative expense adjusted at the balance sheet date to reflect the estimated number of awarded shares expected to vest as at the balance sheet date.

Total expenses recognized in the consolidated income statement for awarded shares granted to the Selected Participants have been disclosed in Note 12.

32 BUSINESS COMBINATION

In December 2015, the Group entered into certain sale and purchase agreements with certain independent third parties to acquire the entire interest in the trademarks of REPLAY for the PRC, Taiwan, Hong Kong and Macau markets (the "Greater China markets"), together with certain operating assets of the related business (collectively the "Acquired Business") for an aggregate consideration of EUR40.0 million (equivalents to approximately RMB284.4 million). The Acquired Business principally engaged in trading and retailing of apparel and accessories products in the Greater China markets under the trademarks of REPLAY. The acquisition is considered insignificant to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit for the year to net cash generated from operations

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Profit for the year	**2,416.0**	2,945.1
Adjustments for:		
Income tax expense	**1,596.9**	1,596.1
Share of results of associates and a joint venture	**(6.3)**	(71.8)
Depreciation on property, plant and equipment	**1,086.2**	957.3
Amortization of land use rights	**32.5**	28.4
Depreciation on investment properties	**6.5**	8.1
Amortization of intangible assets	**81.7**	90.6
Gain on disposal of property, plant and equipment and land use rights	**(4.7)**	(7.3)
Gains on partial disposal and dilution of interest in an associate	**(160.3)**	–
Write-off of property, plant and equipment	**14.3**	10.8
Impairment losses of inventories	**26.0**	127.0
Impairment of intangible assets	**1,103.3**	1,356.4
Employee share-based compensation expense	**430.7**	153.3
Interest income	**(154.4)**	(379.1)
Interest expense	**0.1**	45.9
Others	**6.4**	12.1
	6,474.9	6,872.9
Changes in working capital:		
Increase in long-term deposits, prepayments and other assets	**(31.8)**	(9.2)
Increase in inventories	**(1,025.5)**	(585.0)
Decrease in trade receivables	**647.5**	471.3
Increase in deposits, prepayments and other receivables	**(286.6)**	(153.2)
Increase/(decrease) in trade payables	**122.3**	(55.6)
Increase in other payables, accruals and other liabilities	**517.3**	230.9
Net cash generated from operations	**6,418.1**	6,772.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) In the statement of cash flows, payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets are analyzed as follows:

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Additions to:		
Property, plant and equipment	**1,247.0**	1,333.8
Land use rights	**73.6**	–
Intangible assets	**–**	10.9
Increase in prepayments	**20.5**	15.8
	1,341.1	1,360.5

(c) In the statement of cash flows, proceeds from disposal of property, plant and equipment and land use rights comprise:

	Year ended 28 February 2017 RMB million	Year ended 29 February 2016 RMB million
Net book value	**82.0**	32.6
Gain on disposal	**4.7**	7.3
Other receivable	**(21.5)**	–
Proceeds from disposal	**65.2**	39.9

(d) Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise:

	As at 28 February 2017 RMB million	As at 29 February 2016 RMB million
Bank balances and cash	**3,589.9**	3,128.7
Structured bank deposits	**–**	84.0
	3,589.9	3,212.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 COMMITMENTS

(a) Capital commitments

As at 28 February 2017, the Group had the following capital commitments not provided for:

	As at 28 February 2017	As at 29 February 2016
	RMB million	*RMB million*
Contracted but not provided for		
– Construction commitments	**59.1**	200.5
– Purchase of property, plant and equipment	**0.1**	–
– Available-for-sale financial assets *(Note 19)*	**225.1**	–
	284.3	200.5

(b) Operating lease commitments

As at 28 February 2017, the future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases were as follows:

	As at 28 February 2017	As at 29 February 2016
	RMB million	*RMB million*
Not later than 1 year	**1,132.3**	1,030.9
Later than 1 year and not later than 5 years	**1,672.7**	1,246.1
Later than 5 years	**192.2**	141.7
	2,997.2	2,418.7

Generally, the Group's operating leases are for terms of 1 to 10 years.

The actual payments in respect of certain operating leases are calculated at a certain percentage of sales of the respective retail outlets or at the higher of the minimum commitments as noted above and the amounts determined based on a percentage of the sales of the related outlets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 FUTURE MINIMUM RENTAL PAYMENTS RECEIVABLE

As at 28 February 2017, the future aggregate minimum rental payments receivable in respect of land and buildings under non-cancellable operating leases were as follows:

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Not later than 1 year	**61.0**	60.1
Later than 1 year and not later than 5 years	**24.7**	24.0
	85.7	84.1

36 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions in addition to the related party information shown elsewhere in these consolidated financial statements:

Transactions for the year

	Year ended	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Transactions with associates *(note (a))*		
– Sale of goods	**16.0**	13.2
– Processing fee income	**3.7**	10.9
– Processing fee charges	**–**	7.4
– Purchases of goods	**575.4**	425.7
– Royalty expense	**26.0**	17.7
Transaction with a joint venture *(note (a))*		
– Purchases of goods	**13.8**	1.5
Key management compensation		
– Salaries, bonuses and other welfare *(note (b))*	**27.9**	27.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 RELATED PARTY TRANSACTIONS (Continued)

Year-end balances

	As at	
	28 February 2017	29 February 2016
	RMB million	*RMB million*
Receivables from/(payable to) associates		
– Trade receivables *(note (c))*	**12.1**	10.5
– Other receivables *(note (d))*	**107.8**	–
– Trade payables *(note (c))*	**(176.4)**	(136.8)
– Other payables *(note (e))*	**(25.0)**	–
Receivables from/(payable to) a joint venture		
– Other receivable *(note (f))*	**133.0**	95.1
– Trade payables *(note (c))*	**(3.5)**	(0.8)

Notes:

(a) Processing fee income and purchases of goods from associates and the joint venture, and sales of goods, processing fee and royalty expense to the associates are based on terms mutually agreed between the relevant parties.

(b) Key management includes directors and certain executives who have important roles in making operational and financial decisions.

(c) The receivables from/payables to associates and the joint venture arise mainly from transactions as described above which are unsecured, interest free and are due for settlement according to the relevant business terms which generally range from 30 to 180 days. Except for trade payable to an associate amounting to RMB19.2 million (2016: RMB21.1 million) which is denominated in Japanese Yen, and the trade payables to associates amounting to RMB4.5 million (2016: Nil) which are denominated in Euro, all other trade balances with associates and the joint venture are denominated in RMB.

(d) Loan to an associate is secured by personal guarantee from a shareholder of the associate, bearing interest at 3% per annum, repayable within one year and denominated in Euro.

(e) Other payables to associates are unsecured, interest free, and denominated in RMB. Other payables to associates amounting to RMB22.0 million and RMB3.0 million are repayable within one year and on demand respectively.

(f) The balance represents advance made to the joint venture, which is unsecured, interest free, repayable on demand and denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 28 February 2017 RMB million	As at 29 February 2016 RMB million
ASSETS			
Non-current assets			
Interests in subsidiaries		**10,316.8**	10,718.8
Current assets			
Amounts due from subsidiaries		**6,206.9**	1,712.9
Prepayments		**0.5**	0.9
Term deposits with initial terms of over three months		**43.9**	–
Bank balances and cash		**2.2**	2.8
		6,253.5	1,716.6
Total assets		**16,570.3**	12,435.4
EQUITY			
Capital and reserves			
Share capital		**83.1**	83.1
Share premium	(i)	**9,331.9**	9,331.9
Reserves	(ii)	**2,996.2**	2,540.8
Total equity		**12,411.2**	11,955.8
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries		**4,155.9**	476.7
Other payables and accruals		**3.2**	2.9
Total liabilities		**4,159.1**	479.6
Total equity and liabilities		**16,570.3**	12,435.4

The balance sheet of the Company was approved by the Board of Directors on 15 May 2017 and was signed on its behalf.

Sheng Baijiao
Director

Tang King Loy
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(i) Share premium

Under the Companies Law. Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(ii) Reserve movement of the Company

	Capital redemption reserve	Shares held for share award scheme	Share-based compensation reserve	Retained earnings	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
As at 1 March 2015	0.1	(1,716.1)	153.3	3,681.0	2,118.3
Profit for the year	–	–	–	3,221.2	3,221.2
Dividends paid	–	–	–	(2,952.0)	(2,952.0)
Employee share award scheme					
– Value of employee services	–	–	153.3	–	153.3
As at 29 February 2016 and 1 March 2016	**0.1**	**(1,716.1)**	**306.6**	**3,950.2**	**2,540.8**
Profit for the year	**–**	**–**	**–**	**1,542.9**	**1,542.9**
Dividends paid	**–**	**–**	**–**	**(1,518.2)**	**(1,518.2)**
Employee share award scheme					
– Value of employee services	**–**	**–**	**430.7**	**–**	**430.7**
As at 28 February 2017	**0.1**	**(1,716.1)**	**737.3**	**3,974.9**	**2,996.2**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES

As at 28 February 2017, the Company had the following principal subsidiaries:

Name	Issued/paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/place of operation
Directly held:				
Belle International (China) Limited	HK$10,000,000	100%	Hong Kong	Investment holdings and trading of shoes and footwear products/Hong Kong
Best Able Footwear Limited	HK$800,000,000	100%	Hong Kong	Investment holdings/Hong Kong
Bestfull International Limited	HK$515,001	100%	Hong Kong	Investment holdings/Hong Kong
Forever Sun International Limited	HK$10,000	100%	Hong Kong	Investment holdings/Hong Kong
Full Sport Holdings Limited	HK$10,000,000	100%	Hong Kong	Investment holdings/Hong Kong
Lai Wah Footwear Trading Limited	HK$2,000,000	100%	Hong Kong	Investment holdings and trading of shoes and footwear products/Hong Kong
Belle Group Limited	10,000 shares of US$1 each	100%	British Virgin Islands ("BVI")	Investment holdings/Hong Kong
City Talent Group Limited	1 share of US$1	100%	BVI	Investment holdings/Hong Kong
Famestep Management Limited	10,000 shares of US$1 each	100%	BVI	Investment holdings/Hong Kong
Fullbest Investments Limited	20,000 shares of US$1 each	100%	BVI	Investment holdings/Hong Kong
Synergy Eagle Limited	10,000 shares of US$1 each	100%	BVI	Investment holdings/Hong Kong

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Issued/paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/place of operation
Indirectly held:				
Baroque China Apparels Limited	HK$260,000,000	51%	Hong Kong	Investment holdings/Hong Kong
Belle Worldwide Limited	HK$3	100%	Hong Kong	Property holdings and provision of administration services/Hong Kong
Full State Corporation Limited	HK$10,000,000	100%	Hong Kong	Investment holdings and trading of shoes and footwear products/Hong Kong
Grand Billion International Investment Limited	HK$1,000,000	60%	Hong Kong	Investment holdings and trading of shoes and footwear products/Hong Kong
Artigiano Footwear Limited	30,000 shares of Macao Patacs ("MOP") 1 each	100%	Macau	Trading of shoes and footwear products/ Macau
Bestwell (Macao Commerical Offshore) Company Limited	100,000 shares of MOP1 each	100%	Macau	Trading of shoes and footwear products/ Macau
Staccato Footwear (Macau) Company Limited	25,000 shares of MOP1 each	100%	Macau	Trading of shoes and footwear products/ Macau
Best Sail International Holdings Limited	4,000 shares of HK$1 each	60%	Cayman Islands	Investment holdings/Hong Kong
合眾服飾(深圳)有限公司 (Hezhong Apparel (Shenzhen) Limited)#	US$10,000,000	100%	The PRC	Manufacturing and trading of shoes, footwear products and apparel/ the PRC
百麗鞋業(上海)有限公司 (Belle Footwear (Shanghai) Company Limited)#	US$30,000,000	100%	The PRC	Trading of shoes, footwear products, sporting shoes and apparel/the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Issued/paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/place of operation
Indirectly held: (Continued)				
百麗鞋業(北京)有限公司 (Belle Footwear (Beijing) Company Limited)#	US$17,000,000	100%	The PRC	Trading of shoes, footwear products, sporting shoes and apparel/the PRC
百麗鞋業(宿州)有限公司 (Belle Footwear (Suzhou) Company Limited)#	US$28,000,000	100%	The PRC	Manufacturing and trading of shoes and footwear products/the PRC
銅仁百麗鞋業有限公司 (Tongren Belle Footwear Company Limited)#	RMB30,000,000	100%	The PRC	Manufacturing and trading of shoes, footwear products and apparel/the PRC
麗港鞋業(深圳)有限公司 (Lai Kong Footwear (Shenzhen) Company Limited)#	US$8,771,368	100%	The PRC	Manufacturing and trading of shoes and footwear products/the PRC
新百麗鞋業(深圳)有限公司 (New Belle Footwear (Shenzhen) Company Limited)#	US$130,000,000	100%	The PRC	Manufacturing and trading of shoes and footwear products/the PRC
江蘇新森達鞋業有限公司 (Jiangsu New Senda Footwear Company Limited)@	RMB200,000,000	100%	The PRC	Manufacturing and trading of shoes and footwear products/the PRC
上海新百思圖鞋業有限公司 (Shanghai New Basto Footwear Company Limited)@	RMB50,000,000	100%	The PRC	Manufacturing and trading of shoes and footwear products/the PRC
湖北秭歸百麗鞋業有限責任公司 (Hubei Zigui Belle Footwear Company Limited)@	RMB31,000,000	100%	The PRC	Manufacturing of shoes and footwear products/the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Issued/paid-in capital	Interest held	Place of incorporation/ establishment	Principal activities/place of operation
Indirectly held: (Continued)				
深圳百麗商貿有限公司 (Shenzhen Belle Trading Company Limited)@	RMB20,000,000	100%	The PRC	Trading of shoes and footwear products/the PRC
廣億貿易(上海)有限公司 (Grand Billion Trading (Shanghai) Company Limited)#	US$9,800,000	60%	The PRC	Trading of shoes and footwear products/the PRC
廣州億僮貿易有限公司 (Guangzhou Yitong Trading Company Limited)@	RMB10,000,000	60%	The PRC	Trading of shoes and footwear products/the PRC
滔搏投資(上海)有限公司 (Taobo Investments (Shanghai) Company Limited)#	US$10,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
滔搏體育(上海)有限公司 (Taobo Sports (Shanghai) Company Limited)#	US$12,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
百朗商貿(深圳)有限公司 (Bailang Trading (Shenzhen) Company Limited)#	US$5,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
青島傳承國際商貿有限公司 (Qingdao Chuancheng International Trading Company Limited)#	US$32,000,000	100%	The PRC	Trading of sporting shoes and apparel/ the PRC
廣州市滔搏體育發展有限公司 (Guangzhou Taobo Sports Development Company Limited)#	US$25,000,000	100%	The PRC	Operation of sports complex business/ the PRC
優購科技有限公司 (Yougou Technology Company Limited)#	US$55,000,000	100%	The PRC	Operation of e-commerce business/ the PRC
巴羅克(上海)服飾有限公司 (Baroque Apparels (Shanghai) Company Limited)#	RMB10,000,000	51%	The PRC	Trading of apparel and accessories products/the PRC

\# The company is established as a wholly foreign-owned enterprise in the PRC.

@ The company is established as a limited liability company in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39 PARTICULARS OF ASSOCIATES AND A JOINT VENTURE

As at 28 February 2017, the Group had the following associates and a joint venture:

Name	Interest held indirectly	Place of incorporation/ establishment	Principal activities/place of operation
Associates:			
Baroque Japan Limited^*	20.52%	Japan	Trading and retailing of apparel and accessories products/Japan
Baroque China Limited	49%	Hong Kong	Investment holdings and wholesale of apparel and accessories products/ Hong Kong
Fashion Box S.p.A.^^	33.55%	Italy	Trading and retailing of apparel and accessories products/Italy
鶴山市新易高鞋業有限公司 (Heshan New Eagle Footwear Company Limited)@	36%	The PRC	Manufacturing of shoes and footwear products/the PRC
A joint venture:			
宿州百聯尚多皮革有限公司 (Suzhou Bailian Shangduo Leather Company Limited)@	45%	The PRC	Manufacturing and processing of leather/the PRC

^ Baroque Japan Limited's financial year end date is 31 January. The non-coterminous year end dates of Baroque Japan Limited and the Group does not have any significant impact to the Group.

* Baroque Japan Limited is a company listed on the Tokyo Stock Exchange. As at 28 February 2017, the market value of the Group's interest in Baroque Japan Limited was approximately RMB647.3 million.

^^ Fashion Box S.p.A.'s financial year end date is 31 December. The non-coterminous year end dates of Fashion Box S.p.A. and the Group does not have any significant impact to the Group.

@ The company is established as a limited liability company in the PRC.

40 SUBSEQUENT EVENTS

On 17 April 2017, Muse Holdings-B Inc. (the "Offeror") requested the Board to put forward a proposal which, if approved and implemented, will result in the Company being privatized by the Offeror and the withdrawal of listing of the shares of the Company on The Stock Exchange of Hong Kong Limited. The proposal will be implemented by way of a scheme of arrangement under Section 86 of the Companies Law of the Cayman Islands (the "Scheme"). Up to the date of this report, the Company is still preparing the details of the Scheme.

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