
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this Scheme Document, the Scheme, or as to the action to be taken, you should consult a licensed securities dealer, or registered institution in securities, a bank manager, solicitor, or other professional adviser.

If you have sold all your shares in Peak Sport Products Co., Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser.

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**XU'S SPORT COMPANY
LIMITED**

許氏體育有限公司

(Incorporated in Hong Kong with limited liability)

**PEAK SPORT PRODUCTS CO.,
LIMITED**

匹克體育用品有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1968)



**PROPOSED PRIVATISATION OF PEAK SPORT PRODUCTS CO., LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)**

Financial Adviser to the Offeror



華泰金融控股(香港)有限公司

HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED

Independent Financial Adviser to the Independent Board Committee



Gram Capital Limited

嘉林資本有限公司

Unless the context requires otherwise, capitalised terms used in this Scheme Document are defined under the section headed "Definitions" in Part I of this Scheme Document.

A letter from the Board is set out in Part IV of this Scheme Document. A letter from the Independent Board Committee, containing its advice to the Independent Shareholders and the Optionholders in relation to the Proposal, the Scheme and the Option Offer (as the case may be) is set out in Part V of this Scheme Document. A letter from Gram Capital, being the Independent Financial Adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Proposal, the Scheme and the Option Offer is set out in Part VI of this Scheme Document. An Explanatory Memorandum regarding the Scheme is set out in Part VII of this Scheme Document.

The actions to be taken by the Shareholders and the Optionholders are set out in Part II of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held on Wednesday, 19 October 2016 are set out in Appendix IV and Appendix V, respectively, to this Scheme Document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting and the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Company's branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than the respective times and dates as stated under "Part II – Actions to be taken" of this Scheme Document. If the **pink** form of proxy is not so lodged, it may also be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.

This Scheme Document is issued jointly by the Offeror and the Company.

The English language text of this Scheme Document shall prevail over the Chinese language text.

23 September 2016

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In this Scheme Document, the following expressions have the meanings set out below unless the context requires otherwise:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code and “concert party(ies)” shall be construed accordingly
“Alpha Top”	Alpha Top Group Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company
“Approvals”	has the meaning ascribed to it under the section headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Memorandum
“associates”	has the meaning ascribed to it in the Takeovers Code
“Authority(ies)”	government, quasi-governmental and/or governmental body(ies), statutory or regulatory body(ies), court(s), or designated authorised body(ies) or agency(ies) of any of the foregoing
“Beneficial Owner”	any beneficial owner of the Shares
“Board”	the board of directors of the Company
“Brilliant Lead”	Brilliant Lead Group Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“Cancellation Price”	the cancellation price of HK\$2.60 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Participant”	a person admitted to participate in CCASS as a participant
“CMB”	China Merchants Bank Co., Ltd., Hong Kong Branch
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961), as consolidated and revised of the Cayman Islands

“Company”	Peak Sport Products Co., Limited (匹克體育用品有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange
“Condition(s)”	the condition(s) to the implementation of the Proposal, the Scheme and the Option Offer as set out in the section headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Memorandum
“Consents”	has the meaning ascribed to it under the section headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Memorandum
“Controlling Shareholder”	Ever Sound Development Limited, a company incorporated in the British Virgin Islands and the controlling shareholder of the Company
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Grand Court at which the Scheme will be voted upon, which is to be held at Rooms 1 & 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Hong Kong at 3:00 p.m. on Wednesday, 19 October 2016, notice of which is set out in Appendix IV to this Scheme Document, or any adjournment thereof
“DG Management Co”	has the meaning ascribed to it in the section headed “4.(c) Arrangements with the Offeror and Offeror Concert Parties in respect of the Proposal and other interests” in Appendix II to this Scheme Document
“Director(s)”	director(s) of the Company
“Disclosure Period”	the period beginning from the date which is six months prior to the Offer Period Commencement Date and ending with the Latest Practicable Date, both dates inclusive
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the court order of the Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law, and which is expected to be Monday, 31 October 2016 (Cayman Islands time)

“EGM”	the extraordinary general meeting of the Company to be held at Rooms 1 & 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Hong Kong at 3:20 p.m. on Wednesday, 19 October 2016 (or so soon thereafter as the Court Meeting convened on the same day and place shall have been concluded or adjourned), notice of which is set out in Appendix V to this Scheme Document, or any adjournment thereof
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“Explanatory Memorandum”	the explanatory memorandum set out in Part VII of this Scheme Document and issued in compliance with the Rules of the Grand Court of the Cayman Islands 1995 (revised)
“Form(s) of Acceptance”	the form(s) of acceptance despatched to Optionholders in connection with the Option Offer
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee in relation to the Proposal, the Scheme and the Option Offer
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huatai Financial”	Huatai Financial Holdings (Hong Kong) Limited, the financial adviser to the Offeror in connection with the Proposal and the Option Offer. Huatai Financial is a corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“Huatai Financial Group”	Huatai Financial and persons controlling, controlled by or under the same control (with the meanings ascribed to such terms in the Takeovers Code) as Huatai Financial

“Independent Board Committee”	the independent board committee of the Company established by the Board to make a recommendation to the Independent Shareholders in respect of the Proposal, the Scheme and the Option Offer
“Independent Shareholder(s)”	the Shareholder(s) other than the Offeror and the Offeror Concert Parties
“Initial Announcement Date”	24 May 2016, being the date of the announcement made by the Company pursuant to Rule 3.7 of the Takeovers Code
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Latest Option Exercise Date”	3:30 p.m. Thursday on 27 October 2016, being the expected latest time and date upon which holders of outstanding Share Option(s) must exercise their vested and outstanding Share Option(s)
“Latest Practicable Date”	20 September 2016, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein
“Last Trading Day”	25 July 2016, being the last trading day prior to the issuance of the announcement by the Company dated 26 July 2016 pursuant to Rule 3.5 of the Takeovers Code
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	means 28 February 2017 or such other date as agreed between the Company and the Offeror
“Meeting Record Date”	Wednesday, 19 October 2016, or such other time and date as may be announced to the Shareholders, being the record date for the purpose of determining the entitlement of Shareholders to attend and vote at the Court Meeting and the EGM
“Offeror” or “Xu’s Sport”	Xu’s Sport Company Limited 許氏體育有限公司, a company incorporated in Hong Kong with limited liability
“Offeror Concert Party(ies)”	any party(ies) acting in concert or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code, including the Controlling Shareholder, Alpha Top and Brilliant Lead
“Offer Period Commencement Date”	24 May 2016, being the Initial Announcement Date

“Optionholder(s)”	holder(s) of the outstanding Share Option(s)
“Option Offer”	the offer to be made by the Offeror to the holders of the outstanding Share Option(s)
“Option Offer Letter(s)”	the letter(s) setting out the terms and conditions of the Option Offer sent separately to holders of outstanding Share Option(s) and substantially in the form set out in Appendix VI to this Scheme Document
“Option Offer Price”	HK\$0.662, being the per Share price payable by the Offeror to the Optionholders in consideration for their agreement to cancel their Share Option(s), the details of which are set out in the section headed “The Option Offer” in the letter from the Board contained in Part IV of this Scheme Document, and the section headed “9. Share Options and the Option Offer” in the Explanatory Memorandum
“Option Offer Record Date”	Monday, 31 October 2016, or such other time and date as may be announced or notified to the Optionholders, being the record date for the purpose of determining entitlements under the Option Offer
“PRC”	The People’s Republic of China, but for the purpose of this Scheme Document, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares, on the terms and subject to the conditions set out in this Scheme Document
“Registered Owner”	any owner of Shares (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) entered in the register of members of the Company
“relevant securities”	has the meaning ascribed to it in the Takeovers Code
“Scheme”	the scheme of arrangement under Section 86 of the Companies Law involving, inter alia, the cancellation of all the Scheme Shares
“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time

“Scheme Record Date”	Monday, 31 October 2016, or such other time and date as may be announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme
“Scheme Share(s)”	Share(s) other than those held by the Controlling Shareholder, Alpha Top and Brilliant Lead
“Scheme Shareholder(s)”	holder(s) of Scheme Share(s)
“Securities and Futures Commission”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Charge”	has the meaning ascribed to it in the section headed “4.(c) Arrangements with the Offeror and Offeror Concert Parties in respect of the Proposal and other interests” in Appendix II to this Scheme Document
“Share Option(s)”	the share option(s) granted under the Share Option Scheme from time to time. As at the Latest Practicable Date, there were outstanding Share Options pursuant to which up to a maximum of 12,562,000 new Shares may be issued at HK\$1.938 per Share
“Share Option Scheme”	the share option scheme adopted by the Company on 8 September 2009
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“XPIM Co”	has the meaning ascribed to it in the section headed “4.(c) Arrangements with the Offeror and Offeror Concert Parties in respect of the Proposal and other interests” in Appendix II to this Scheme Document

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction and the Effective Date, which are the relevant date in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

ACTIONS TO BE TAKEN BY SHAREHOLDERS

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to the Registered Owners. Subsequent purchasers of Scheme Shares will need to obtain a proxy form from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 3:00 p.m. (Hong Kong time) on Monday, 17 October 2016 or be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it, and the **white** form of proxy for use at the EGM should be lodged not later than 3:20 p.m. (Hong Kong time) on Monday, 17 October 2016. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the relevant form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of the Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of Scheme Shareholders, Independent Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 14 October 2016 to Wednesday, 19 October 2016 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Hong Kong branch share registrar of the Company at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Thursday, 13 October 2016.

An announcement will be made by the Company in relation to the results of the Court Meeting and the EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Grand Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

ACTIONS TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such person(s) if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or such other relevant person in advance of the deadline(s) in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC may vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

ACTIONS TO BE TAKEN BY OPTIONHOLDERS

The Option Offer Letter is being sent to each Optionholder, together with this Scheme Document and a Form of Acceptance. If you are a holder of outstanding Share Option(s) as at the Option Offer Record Date and you wish to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance so as to reach the Offeror, at Units 1613 & 1615, 16th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong, for the attention of the Board of the Offeror and marked "Peak Sport Produces Co., Limited – Option Offer" by no later than 4:00 p.m. on Monday, 14 November 2016 (or such later date and time as may be notified to you by the Offeror or Huatai Financial). No acknowledgement of receipt of any Form of Acceptance or other document evidencing the grant of Share Option(s) or any other document will be given. The Offeror will offer the Option Offer Price of HK\$0.662, representing the "see-through" price for the outstanding Share Options, which is the relevant Cancellation Price minus the relevant per Share exercise price under the Share Options.

All holders of Share Option(s) must lodge the duly completed and executed Form of Acceptance as mentioned above at or before 4:00 p.m. on Monday, 14 November 2016 (or such later date and time as may be notified to you by the Offeror or Huatai Financial).

You are urged to read the instructions and other terms and conditions of the Option Offer in the Option Offer Letter, substantially in the form set out in Appendix VI to this Scheme Document.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE OFFEROR STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, WE URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING THE BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, WE ENCOURAGE YOU TO PROVIDE HKSCC WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND THE EGM WITHOUT DELAY (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN – ACTION TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS” ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTES.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER, OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR OR OTHER PROFESSIONAL ADVISER.

Hong Kong Time
(unless otherwise stated)

Date of despatch of this Scheme Document	Friday, 23 September 2016
Date of despatch of the Option Offer Letter for the Share Options	Friday, 23 September 2016
Latest time for Optionholders to exercise their vested and outstanding Share Option in order to become Shareholders and entitled to vote at the Court Meeting and the EGM (<i>Note 1</i>)	3:30 p.m. on Thursday, 13 October 2016
Latest time for lodging transfers of Shares in order to qualify for attending and voting at the Court Meeting and the EGM	4:30 p.m. on Thursday, 13 October 2016
Register of members of the Company closed for determination of entitlements of Scheme Shareholders to attend and vote at the Court Meeting and of Shareholders to attend and vote at the EGM (<i>Note 2</i>)	from Friday, 14 October 2016 to Wednesday, 19 October 2016 (both days inclusive)
Latest time for lodging forms of proxy in respect of the Court Meeting (<i>Note 3</i>)	3:00 p.m. on Monday, 17 October 2016 (or to be handed directly to the Chairman at the Court Meeting)
Latest time for lodging forms of proxy in respect of the EGM (<i>Note 3</i>)	3:20 p.m. on Monday, 17 October 2016
Meeting Record Date	Wednesday, 19 October 2016
Court Meeting (<i>Note 4</i>)	3:00 p.m. on Wednesday, 19 October 2016
EGM (<i>Note 4</i>)	3:20 p.m. on Wednesday, 19 October 2016 (or immediately after the conclusion or adjournment of the Court Meeting)
Announcement of results of the Court Meeting and the EGM	not later than 7:00 p.m. on Wednesday, 19 October 2016
Expected last day for dealing in the Shares on the Stock Exchange	Monday, 24 October 2016

PART III**EXPECTED TIMETABLE**

Latest Option Exercise Date (<i>Note 5</i>)	3:30 p.m. Thursday, 27 October 2016
Latest time for lodging transfers of Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Thursday, 27 October 2016
Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction	Thursday, 27 October 2016 (Cayman Islands Time)
Register of members of the Company closed for determining entitlements to qualify under the Scheme (<i>Note 6</i>)	from Friday, 28 October 2016 onwards
Announcement of the result of the Grand Court hearing to sanction the Scheme and to confirm the capital reduction	Friday, 28 October 2016
Scheme Record Date	Monday, 31 October 2016
Option Offer Record Date (<i>Note 7</i>)	Monday, 31 October 2016
Effective Date (<i>Note 8</i>)	Monday, 31 October 2016 (Cayman Islands Time)
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange	Tuesday, 1 November 2016 (before 8:30 a.m.)
Expected withdrawal of the listing of Shares on the Stock Exchange becomes effective (<i>Note 9</i>)	4:00 p.m. on Wednesday, 2 November 2016
Latest time to despatch cheques for cash payment under the Scheme	on or before Wednesday, 9 November 2016
Latest time to accept the Option Offer and closing date of the Option Offer (<i>Note 10</i>)	4:00 p.m. on Monday, 14 November 2016
Announcement of the results of the Option Offer on the website of the Securities and Futures Commission	not later than 7:00 p.m. on Monday, 14 November 2016
Announcement of the results of the Option Offer published in one leading English language newspaper and one leading Chinese language newspaper in Hong Kong	Tuesday, 15 November 2016
Latest time to despatch cheques for cash payment under the Option Offer, in respect of the Share Options as at the Option Offer Record Date (<i>Note 11</i>)	on or before Wednesday, 23 November 2016

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

- (1) Holders of Share Options that vest after the Meeting Record Date are not able to exercise their Share Options in time to entitle them to attend and vote at the Court Meeting and the EGM.
- (2) The register of members of the Company will be closed during such period for the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the EGM. The book closure period is not for determining entitlements under the Scheme.
- (3) Forms of proxy should be lodged with the office of the Company's branch share registrar, Tricor Investor Services Limited as soon as possible and in any event no later than the times and dates stated above. In order to be valid, the **pink** form of proxy for the Court Meeting and the **white** form of proxy for the EGM must be lodged no later than the latest times and dates stated above. If the **pink** form of proxy is not so lodged, it may also be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a Scheme Shareholder and Shareholder, respectively, from attending the relevant meeting and voting in person. In such event, the form of proxy will be deemed to have been revoked.
- (4) The Court Meeting and the EGM will be held at Rooms 1 & 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Hong Kong at the times and dates specified above. Please see the notice of Court Meeting set out in Appendix IV to this Scheme Document and the notice of EGM set out in Appendix V to this Scheme Document for details.
- (5) If a holder of outstanding Share Option(s) decides not to exercise his/her vested Share Option, the right to subscribe for Shares under such Share Option shall cease to be exercisable (but subject to the proviso in this note) from this time and, subject to the Scheme becoming effective, such holder of Share Option shall only be entitled to the Option Offer in accordance with the terms herein, provided that if the Scheme does not become effective, the outstanding Share Option(s) shall remain capable of being exercised in accordance with their original terms.
- (6) The register of members of the Company will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
- (7) Holders of outstanding Share Option(s) as at the Option Offer Record Date will be entitled to the Option Offer.
- (8) The Scheme will only become effective on this date if all the Conditions set out in the paragraph headed "4. Conditions of the Proposal and the Scheme" in the Explanatory Memorandum have been fulfilled or (to the extent permitted) waived (as the case may be).
- (9) If the Proposal becomes unconditional and the Scheme becomes effective, it is expected that the listing of the Shares on the Stock Exchange will be withdrawn after 4:00 p.m. on Wednesday, 2 November 2016.
- (10) Forms of Acceptance, duly completed and executed in accordance with the instructions on them, must be lodged with the Offeror at Units 1613 & 1615, 16th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong, for the attention of the board of the Offeror and marked "Peak Sport Products Co., Limited – Option Offer" not later than 4:00 p.m. on Monday, 14 November 2016 (or such later date and time as may be notified by the Offeror or Huatai Financial). Each holder of outstanding Share Option(s) as at the Option Offer Record Date is entitled to accept the Option Offer. If any holders of outstanding Share Option(s) have not accepted the Option Offer, the Share Option(s) held by these holders will be cancelled by the Company and these holders will not receive the Option Offer Price.
- (11) Payment by cheque in respect of validly completed and executed Forms of Acceptance received after the Option Offer Record Date but at or before 4:00 p.m. on Monday, 14 November, 2016 will be despatched within seven Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of such validly completed and executed Forms of Acceptance.



PEAK SPORT PRODUCTS CO., LIMITED
匹克體育用品有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1968)

Executive Directors:

Mr. XU Jingnan (*Chairman*)
Mr. XU Zhihua (*Chief Executive Officer*)
Mr. XU Zhida

Non-executive Director:

Ms. WU Tigao

Independent Non-executive Director:

Dr. XIANG Bing
Mr. FENG Lisheng
Mr. ZHU Haibin

Registered office:

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KYI-1111
Cayman Islands

Principal Place of Business in Hong Kong:

Units 1613 & 1615, 16th Floor
Tower Two, Lippo Centre
89 Queensway Hong Kong

23 September 2016

To the Shareholders and Optionholders

Dear Sir/Madam,

PROPOSED PRIVATISATION OF PEAK SPORT PRODUCTS CO., LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)

INTRODUCTION

On 26 July 2016, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and the Option Offer, and the expected timetable and to give you notice of the Court Meeting and the EGM (together with proxy forms in relation thereto). Your attention is also drawn to the letter from the

Independent Board Committee set out in Part V of this Scheme Document, the letter from Gram Capital, being the Independent Financial Adviser, set out in Part VI of this Scheme Document, the Explanatory Memorandum set out in Part VII of this Scheme Document and the terms of the Scheme set out in Appendix III to this Scheme Document.

TERMS OF THE PROPOSAL AND THE OPTION OFFER

The Scheme and the Conditions

Subject to the fulfilment or waiver (as applicable) of the Conditions as described in the Explanatory Memorandum, the Proposal will be implemented by way of the Scheme, pursuant to which the issued share capital of the Company will be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to the Offeror of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror. Upon the Scheme having become effective, assuming no Share Option(s) are exercised before the Scheme Record Date, the Offeror, namely Xu's Sport, will hold approximately 38.81% of the issued share capital of the Company.

The Scheme will provide that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$2.60 in cash for each Scheme Share.

Assuming that the Scheme becomes effective on Monday, 31 October 2016 (Cayman Islands Time), cheques for cash entitlements under the Scheme are expected to be despatched to the Scheme Shareholders by ordinary mail at their own risk on or before Wednesday, 9 November 2016.

The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

Comparison of value and financial effects

Cancellation Price

The Cancellation Price of HK\$2.60 per Scheme Share represents:

- a premium of approximately 35.4% over the closing price of HK\$1.92 per Share as quoted on the Stock Exchange on the trading day immediately before the Initial Announcement Date, being the date of the announcement made by the Company pursuant to Rule 3.7 of the Takeovers Code;
- a premium of approximately 29.4% over the average closing price of approximately HK\$2.01 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days immediately before the Initial Announcement Date;
- a premium of approximately 33.3% over the average closing price of approximately HK\$1.95 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days immediately before the Initial Announcement Date;

- a premium of approximately 33.3% over the average closing price of approximately HK\$1.95 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days immediately before the Initial Announcement Date;
- a premium of approximately 27.5% over the average closing price of approximately HK\$2.04 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days immediately before the Initial Announcement Date;
- a premium of approximately 10.6% over the closing price of HK\$2.35 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 15.6% over the average closing price of approximately HK\$2.25 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 20.9% over the average closing price of approximately HK\$2.15 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 24.4% over the average closing price of approximately HK\$2.09 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 27.5% over the average closing price of approximately HK\$2.04 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 9.7% over the audited consolidated net asset value per Share of approximately HK\$2.37 as at 31 December 2015; and
- a premium of approximately 5.3% over the closing price of HK\$2.47 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Cancellation Price has been determined on a commercial basis after taking into account the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

Dividends

The Company's ability to pay dividends is limited by its memorandum and articles of association and Cayman Islands law, which allows the Company to declare and pay dividends out of profits or, subject to being able to pay its debts as they fall due in the ordinary course of business and to approval by way of an ordinary resolution of Shareholders, its share premium account. Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to dividend, if any, declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). The Company does not expect to declare any dividend on or before the Effective Date.

The Option Offer

As at the Latest Practicable Date, there were certain outstanding Share Options granted under the Share Option Scheme, pursuant to which up to a maximum of 12,562,000 new Shares may be issued, and of which the outstanding Share Option held by Ms. Wu Bingrui (the spouse of Mr. Xu Zhida, an Offeror Concert Party) entitled her to subscribe for 300,000 new Shares, and the balance of the Share Options were held by Dr. Xiang Bing (being an independent non-executive Director) and certain employees of the Group. The relevant per Share exercise price under the Share Options is HK\$1.938.

Pursuant to the Option Offer made by the Offeror, the Option Offer Price is offered for the Shares underlying each vested and unvested Share Option held as at the Option Offer Record Date in consideration for the cancellation of the relevant Share Options. The total amount of cash required for the Option Offer is approximately HK\$8,316,044.

The Option Offer Price of HK\$0.662 represents the “see-through” price for the outstanding Share Options, which is the relevant Cancellation Price minus the relevant per Share exercise price under the Share Options.

The Option Offer is conditional upon the Scheme becoming effective and binding.

You are urged to read carefully the details in respect of the Share Options and the Option Offer set out in the section headed “9. Share Options and the Option Offer” in the Explanatory Memorandum and to Appendix VI – Form of Option Offer Letter to this Scheme Document.

Irrevocable Undertakings

Each of the Optionholders has undertaken not to exercise his/her Share Option(s) prior to the Effective Date.

Financial Resources

On the assumption that no outstanding Share Option(s) will be exercised or lapse before the Scheme Record Date, the amount of cash required to satisfy the consideration payable for the cancellation of the Scheme Shares (before taking into account the Option Offer to be made) is approximately HK\$2,411,047,985, and the amount of cash required for the Option Offer is approximately HK\$8,316,044.

On the assumption that all the outstanding (vested and unvested) Share Options will be exercised before the Scheme Record Date, the amount of cash required to satisfy the consideration payable for the cancellation of the Scheme Shares is approximately HK\$2,443,709,185.

The Offeror intends to finance the cash required for the cancellation of the Scheme Shares and the Option Offer by a loan facility from CMB. Huatai Financial, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the cancellation of the Scheme Shares and the Option Offer in full.

REASONS FOR AND BENEFITS OF THE SCHEME AND THE PROPOSAL, AND THE OFFEROR'S INTENTION IN RELATION TO THE GROUP

You are urged to read carefully the section headed “11. Reasons for and Benefits of the Scheme and the Proposal” and the section headed “14. Intentions of the Offeror” in the Explanatory Memorandum.

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, which comprises all the independent non-executive Directors, namely, Dr. Xiang Bing, Mr. Feng Lisheng and Mr. Zhu Haibin, has been established by the Board to make a recommendation to the Independent Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and as to voting, and to the Optionholders as to its views on acceptance of the Option Offer.

Although Ms. Wu Tigao is a non-executive Director, as Ms. Wu Tigao is the spouse of Mr. Xu Jingnan (the Chairman of the Company and an executive Director, and a director of the Offeror), she is regarded as being interested in the Proposal and therefore is not made a member of the Independent Board Committee.

The full text of the letter from the Independent Board Committee in relation to recommendations with respect to the Proposal, the Scheme and the Option Offer is set out in Part V of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER

Gram Capital has been appointed as the Independent Financial Adviser (with the approval of the Independent Board Committee) to advise the Independent Board Committee in connection with the Proposal, the Scheme and the Option Offer.

The full text of the letter from Gram Capital is set out in Part VI of this Scheme Document.

INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 29 September 2009. The Group is principally engaged in the manufacture and distribution of sports products including footwear, apparel and accessories.

As at Latest Practicable Date, the Company was solvent and was not unable to pay its debts as they fall due and would not become unable to do so immediately after the Latest Practicable Date.

INFORMATION ON THE OFFEROR

The Offeror is a Hong Kong incorporated company with limited liability established for the purpose of the Scheme and the Option Offer and is held by Mr. Xu Jingnan (the Chairman of the Company and an executive Director), Mr. Xu Zhihua (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao,

and a brother of Mr. Xu Zhida) and Mr. Xu Zhida (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhihua) as to 40%, 30% and 30%, respectively. Please see “13. Information on the Offeror” in the Explanatory Memorandum for further details.

WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company does not intend to retain its listing on the Stock Exchange and has applied to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange conditional upon the Scheme becoming effective in accordance with Rule 6.15(2) of the Listing Rules. The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. A detailed expected timetable of the Scheme has been included in Part III of this Scheme Document.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

Shareholders and potential investors should exercise caution when dealing in the Shares and any options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their licensed securities dealer or registered institution in securities, bank manager, solicitor or other professional advisers.

COURT MEETING AND EGM

Court Meeting

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications).

Scheme Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, Scheme Shareholders, present and voting either in person or by proxy, will be entitled to vote their Scheme Shares in favour of the Scheme or against it.

The Scheme is conditional upon, amongst other things, approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares present and voting in person or by proxy at the Court Meeting. In addition, the Scheme must be approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voting either in person or by proxy at the Court Meeting; provided that the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

In accordance with the Companies Law, the “75% in value” requirement as described above will be met if the total value of Scheme Shares being voted by the Scheme Shareholders present and voting either in person or by proxy in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement as described above will be met if the number of Scheme Shareholders present and voting either in person or by proxy at the Court Meeting in favour of the Scheme exceeds the number of Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the Scheme. For the purpose of the Takeovers Code, only the number of Scheme Shares from an Independent Shareholder being so voted will count towards the “75% in value” requirement as Shareholders who are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

Notice of the Court Meeting is set out in Appendix IV to this Scheme Document. The Court Meeting will be held at 3:00 p.m. (Hong Kong time) on Wednesday, 19 October 2016 at Rooms 1 & 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Hong Kong.

EGM

The EGM will be held immediately following the adjournment or conclusion of the Court Meeting.

All Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the EGM with respect to (i) the special resolution by Shareholders to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) the ordinary resolution by Shareholders to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up on full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by Shareholders as being entitled to do so, present and voting in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more than 50% of the votes are cast in favour of the ordinary resolution by the Shareholders as being entitled to do so, present and voting either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolution. Alternatively, such Shareholder may vote some of their Shares in favour of the special resolution and/or the ordinary resolutions and any of the balance of their Shares against the special resolution and/or the ordinary resolution (and vice versa).

The Controlling Shareholder, Brilliant Lead and Alpha Top have undertaken that if the Scheme is approved at the Court Meeting, they will cast the votes in respect of those Shares held by them in favour of the resolutions to be proposed at the EGM.

Notice of the EGM is set out in Appendix V to this Scheme Document. The EGM will be held at 3:20 p.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned) on Wednesday, 19 October 2016 at Rooms 1 & 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Hong Kong.

Assuming that the Conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on or before Monday, 31 October 2016 (Cayman Islands time). Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the resolutions are passed at those meetings, the results of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Scheme Record Date, the Effective Date, and the date of withdrawal of the listing of Shares on the Stock Exchange.

Your attention is drawn to “20. Court Meeting and EGM” in the Explanatory Memorandum.

OVERSEAS SHAREHOLDERS AND OPTIONHOLDERS

Your attention is drawn to the section headed “17. Overseas Shareholders and Overseas Optionholders” in the Explanatory Memorandum.

ACTIONS TO BE TAKEN

Your attention is drawn to “Part II – Actions to be taken” of this Scheme Document and the section headed “23. Summary of actions to be taken” in the Explanatory Memorandum.

RECOMMENDATION

The Directors (excluding members of the Independent Board Committee) are Offeror Concert Parties, and thus they recommend that the Independent Shareholders and Optionholders should carefully consider the views and recommendations of the Independent Board Committee, whose views and recommendations are set out in the letter from the Independent Board Committee in Part V of this Scheme Document.

REGISTRATION AND PAYMENT

Your attention is drawn to the section headed “18. Registration and Payment” in the Explanatory Memorandum.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed “19. Taxation” in the Explanatory Memorandum.

It is emphasised that none of the Offeror, the Company and Huatai Financial nor any of their respective directors or associates or any other person involved in the Scheme accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme. All Scheme Shareholders are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Proposal.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from Gram Capital, the Independent Financial Adviser, as set out in Parts V and VI of this Scheme Document, respectively, the Explanatory Memorandum as set out in Part VII of this Scheme Document, the Appendices to this Scheme Document, the Scheme as set out in Appendix III to this Scheme Document, the notice of Court Meeting as set out in Appendix IV to this Scheme Document and the notice of EGM as set out in Appendix V to this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Shares.

Your faithfully,
For and on behalf of the Board of
Peak Sport Products Co., Limited
XU Jingnan
Chairman



PEAK SPORT PRODUCTS CO., LIMITED
匹克體育用品有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1968)

Members of the Independent Board Committee:

Dr. XIANG Bing
Mr. FENG Lisheng
Mr. ZHU Haibin

Registered office:

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KYI-1111
Cayman Islands

23 September 2016

To the Independent Shareholders and Optionholders

Dear Sir/Madam,

PROPOSED PRIVATISATION OF PEAK SPORT PRODUCTS CO., LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Independent Shareholders and Optionholders in respect of the Proposal, the Scheme and the Option Offer, respectively, details of which are set out in “Part IV – Letter from the Board” and “Part VII – Explanatory Memorandum” of this Scheme Document. Terms defined in this Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

Gram Capital, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal, the Scheme and the Option Offer. The details of its advice and recommendations and principal factors taken into consideration in arriving at its recommendations are set out in “Part VI – Letter from Gram Capital” of this Scheme Document.

In the letter from Gram Capital set out in Part VI of this Scheme Document, Gram Capital states that it considers the terms of the Proposal, the Scheme and the Option Offer to be fair and reasonable and recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and EGM to approve and implement the Scheme, and the Optionholders to accept the Option Offer.

The full text of the letter from Gram Capital is set out in Part VI of this Scheme Document.

PART V LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, having considered the terms of the Proposal, the Scheme and the Option Offer, and having taken into account the opinion of Gram Capital, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal, the Scheme and the Option Offer are fair and reasonable as far as the Independent Shareholders are concerned.

Accordingly, the Independent Board Committee recommends:

- (a) the Independent Shareholders to vote in favour of the Scheme at the Court Meeting;
- (b) the Independent Shareholders to vote in favour of the special resolution to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares and the ordinary resolution to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror at the EGM; and
- (c) the Optionholders to accept the Option Offer.

The Independent Board Committee draws the attention of the Independent Shareholders to (i) the letter from the Board set out in Part IV of the Scheme Document; (ii) the letter from Gram Capital, the Independent Financial Adviser, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, set out in Part VI of this Scheme Document; and (iii) the Explanatory Memorandum set out in Part VII of this Scheme Document.

XIANG Bing
*Independent non-executive
Director*

Yours faithfully,
FENG Lisheng
*Independent non-executive
Director*
Independent Board Committee

ZHU Haibin
*Independent non-executive
Director*

Set out below is the letter of advice from Gram Capital Limited, the Independent Financial Adviser to the Independent Board Committee regarding the Proposal, the Scheme and the Option Offer, for the purpose of incorporation in the Scheme Document.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong
23 September 2016

To: The independent board committee of Peak Sport Products Co., Limited

Dear Sirs,

**(I) PROPOSED PRIVATISATION OF
PEAK SPORT PRODUCTS COMPANY LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)
AND
(II) PROPOSED WITHDRAWAL OF LISTING**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Proposal, the Scheme and the Option Offer, details of which are set out in the Scheme Document dated 23 September 2016 jointly issued by the Company and the Offeror to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context requires otherwise.

On 26 July 2016, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange.

In addition, the Offeror is making an appropriate offer, namely, the Option Offer, to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Share Options, vested or unvested, in exchange for cash, being an amount equal to HK\$0.662 (being the “see-through” price, which is the relevant Cancellation Price minus the relevant per Share exercise price under the Share Options) for each outstanding Share Option with an exercise price of HK\$1.938. The Option Offer will be conditional upon the Scheme becoming effective.

An Independent Board Committee comprising Dr. Xiang Bing, Mr. Feng Lisheng and Mr. Zhu Haibin (all being independent non-executive Directors) has been formed to advise the Independent Shareholders as to whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable and as to voting, and to the Optionholders as to its views on acceptance of the Option Offer. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Proposal, the Scheme and the Option Offer pursuant to Rule 2.1 of the Takeovers Code. The appointment of Gram Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Scheme Document and the information and representations as provided to us by the Directors and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Scheme Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Scheme Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. Our opinion is based on the Directors' and the Offeror's representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposal, the Scheme and the Option Offer. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

The information contained in the Scheme Document relating to the Group has been supplied by the Company. The issue of the Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than those expressed by the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

The information contained in the Scheme Document relating to Offeror has been supplied by Offeror. The issue of the Scheme Document has been approved by the directors of the Offeror, who accept full responsibility for the accuracy of the information contained in the Scheme Document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Scheme Document, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Offeror or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group, the Shareholders or the Optionholders as a result of the Proposal, the Scheme and/or the Option Offer.

We have assumed that the Proposal, the Scheme and the Option Offer will be consummated in accordance with the terms and conditions set forth in the Scheme Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Proposal, the Scheme and the Option Offer, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Proposal, the Scheme and the Option Offer. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposal, the Scheme and the Option Offer, we have taken into consideration the following principal factors and reasons:

(1) Background and terms of the Proposal, the Scheme and the Option Offer

On 26 July 2016, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange.

If the Proposal is approved and implemented, under the Scheme, the share capital of the Company will, on the effective date of the Scheme, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.

The Scheme will provide that the Scheme Shares will be cancelled and, in consideration therefor, each Scheme Shareholder will be entitled to receive HK\$2.60 in cash for each Scheme Share.

Under the Scheme, the total consideration payable for the cancellation of the Scheme Shares will be payable by the Offeror.

In addition, the Offeror is making an appropriate offer, namely, the Option Offer, to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Share Options, vested or unvested, in exchange for cash, being an amount equal to HK\$0.662 (being the “see-through” price, which is the relevant Cancellation Price minus the relevant per Share exercise price under the Share Options) for each outstanding Share Option with an exercise price of HK\$1.938. The Option Offer will be conditional upon the Scheme becoming effective.

On the basis of the Cancellation Price of HK\$2.60 per Scheme Share and 927,326,148 Scheme Shares in issue as at the Latest Practicable Date, the Scheme Shares are in aggregate valued at approximately HK\$2,411,047,985. As at the Latest Practicable Date, there are certain outstanding Share Options granted under the Share Option Scheme, pursuant to which up to a maximum of 12,562,000 new Shares may be issued. Except the outstanding Share Options, there are no outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

On the assumption that no outstanding Share Options will be exercised or lapse before the Scheme Record Date, the amount of cash required to satisfy the consideration payable for the cancellation of the Scheme Shares (before taking into account the Option Offer to be made) is approximately HK\$2,411,047,985, and the amount of cash required for the Option Offer is approximately HK\$8,316,044, which is equal to the see-through price of HK\$0.662 per Share under the Share Options multiplied by 12,562,000 Shares that may be issued if the Share Options are exercised in full.

On the assumption that all the outstanding Share Options (vested and unvested) will be exercised before the Scheme Record Date, the amount of cash required to satisfy the consideration payable for the cancellation of the Scheme Shares is approximately HK\$2,443,709,185.

(2) Information on the Group

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 29 September 2009. The Group is principally engaged in the manufacture and distribution of sports products including footwear, apparel and accessories.

Set out below is a summary of the audited consolidated financial information on the Group for each of the five years ended 31 December 2015 and the six months ended 30 June 2016 with comparative figures as extracted from the annual report of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2016 (the “**2016 Interim Report**”) respectively:

	For the year ended 31 December 2015	For the year ended 31 December 2014	For the year ended 31 December 2013	For the year ended 31 December 2012	For the year ended 31 December 2011
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Revenue	3,107.5	2,841.4	2,612.9	2,902.9	4,646.9
<i>Year on year change (%)</i>	<i>9.37</i>	<i>8.75</i>	<i>(9.99)</i>	<i>(37.53)</i>	
Gross profit	1,201.5	1,079.0	926.6	1,058.2	1,832.5
<i>Year on year change (%)</i>	<i>11.35</i>	<i>16.45</i>	<i>(12.44)</i>	<i>(42.25)</i>	
Profit for the year	392.3	320.7	244.3	310.6	777.7
<i>Year on year change (%)</i>	<i>22.33</i>	<i>31.27</i>	<i>(21.35)</i>	<i>(60.06)</i>	
		For the six months ended 30 June 2016	For the six months ended 30 June 2015		
		<i>RMB'million</i>	<i>RMB'million</i>		
Revenue		1,298.1	1,380.4		
<i>Year on year change (%)</i>		<i>(5.96)</i>	<i>(5.96)</i>		
Gross profit		494.0	523.1		
<i>Year on year change (%)</i>		<i>(5.56)</i>	<i>(5.56)</i>		
Profit for the period		169.4	176.0		
<i>Year on year change (%)</i>		<i>(3.75)</i>	<i>(3.75)</i>		

As depicted from the above table, the Group’s revenue and gross profit for the year ended 31 December 2015 (“**FY2015**”) increased by approximately 9.37% and 11.35% respectively as compared to the year ended 31 December 2014 (“**FY2014**”). Such increases also led to the increase in profit for the year attributable to the Shareholders. According to the 2015 Annual Report, with growing awareness of health and lifestyle shifting, demands for professional sportswear continued to rise, driving growth in the total amount of the Group’s sales orders.

With reference to the 2015 Annual Report, the Group would maintain its focus on second-tier and third-tier cities in the PRC as well as overseas markets in 2016. The Group would concentrate its efforts on optimizing marketing resources allocation, product research and development, overseas deployment, supply chain and retail outlets while at the same time building out a sports ecosystem in domestic market and strengthening its presence in overseas markets. The Group believed that its market position, focus on professional sportswear and investment in technological innovation had helped it gain a competitive

advantage. To ensure the continuous growth of its business, the Group would strive to accomplish the following tasks in the coming years, namely, enhancement of brand image, focus on niche markets, expansion of overseas markets, optimization of distribution channels and expansion of business scope.

As depicted from the above table, the Group's revenue, gross profit and profit for the six months ended 30 June 2016 slightly decreased as compared to the corresponding period in 2015.

With reference to the statistics of the National Bureau of Statistics of China, from 2011 to 2015, the PRC's gross domestic product ("GDP") increased at a compound annual growth rate ("CAGR") of approximately 8.7% and reached approximately RMB67,671 billion in 2015. The PRC also experienced growth in GDP per capita with a CAGR of approximately 7.9% from 2011 to 2015 and reached approximately RMB49,351 in 2015. During the period from 2011 to 2015, annual disposable income of urban households per capita increased from approximately RMB21,810 to approximately RMB31,195, representing a CAGR of approximately 9.4%.

We also noted from 13th Five-Year Plan for Sports Development (the "**Plan**") published by the PRC government in May 2016, the PRC government has targeted to, lay out government targets and make the sports industry as a key focus for government support for the next five years. The Plan sets the goal of having the overall scale of the sports industry reach RMB3 trillion by 2020 (2014: approximately RMB1.36 trillion), being approximately 1% of the GDP in 2020.

The aforesaid market factors may contribute to the growth of the Group's future prospects. Nevertheless, given that (i) the growth rates of the Group's gross profit and profit for FY2015 decreased as compared to those of FY2014; and (ii) there was no obvious growing trend in the Group's profitability during the five years ended 31 December 2015, the continuous growth of the Group's profitability is not guaranteed.

(3) Information on the Offeror

With reference to the Board Letter, the Offeror is a Hong Kong incorporated company with limited liability established for the purpose of the Scheme and the Option Offer and is held by Mr. Xu Jingnan (the Chairman of the Company and an executive Director), Mr. Xu Zhihua (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhida) and Mr. Xu Zhida (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhihua) as to 40%, 30% and 30%, respectively.

(4) Intentions of the Offeror in relation to the Group

To provide Independent Shareholders with information on the intentions of the Offeror, set out below is the Offeror's intention in relation to the Group as extracted from "Part VII – Explanatory memorandum" of the Scheme Document (the "**Explanatory Memo**"):

If the Proposal and the Scheme are successfully implemented, the Offeror intends that the Company will continue to carry on its existing business. Under current market conditions, the Offeror has no plans to effect any redundancies in respect of the employees of the Group (other than in the ordinary course of business).

The Offeror and the Company have no intention to make any changes to the existing operation and business of the Group nor do they have any plans to redeploy any of the fixed assets of the Group after completion of the Scheme and the Proposal. However, the Offeror and the Company will continue to assess business opportunities for the Group as they arise.

(5) Reasons for, and benefits of the Scheme and the Proposal

With reference to the Explanatory Memo, the Company plans to implement a series of long-term growth strategies, which may affect the Company's short-term growth profile and may result in divergence between the Offeror's views on the Company's potential long-term value and investors' views on the Company's share price. Following the implementation of the Proposal and the Option Offer, the Offeror and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

Since its listing in September 2009, the Company's share price performance has not been satisfactory. As a well-recognised sportswear company in China, the Company values its reputation. The Offeror considers that the depressed share price has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on staff morale. The implementation of the Proposal could eliminate this adverse impact.

The liquidity of Shares has been at a low level over a long period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 5,881,947 Shares per day, representing only approximately 0.25% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

The Proposal is intended to provide the Scheme Shareholders with an opportunity to realise their investments in the Company for two reasons, namely (i) premium valuation; and (ii) certain and immediate premium for low liquidity in the Shares, details of which is set out under the section headed "11. Reasons for and benefits of the Scheme and the Proposal" of the Explanatory Memo.

In addition, the listing of Shares requires the Company to bear administrative, compliance and other listing-related costs and expenses; if these costs and expenses are eliminated, the funds saved could be used for the Company's business operations.

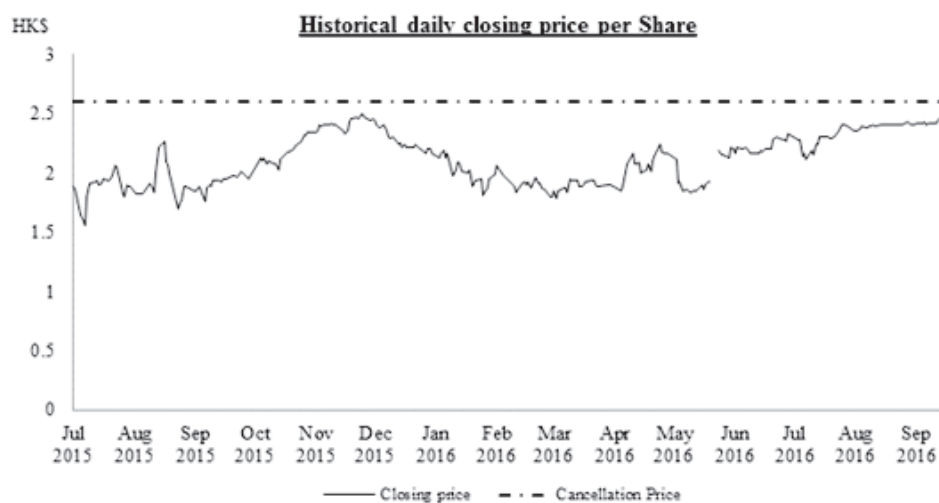
(6) The Cancellation Price*Cancellation Price comparison*

The Cancellation Price of HK\$2.60 per Scheme Share represents:

- (i) a premium of approximately 5.3% over the closing price of HK\$2.47 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a premium of approximately 35.4% over the closing price of HK\$1.92 per Share as quoted on the Stock Exchange on the trading day immediately before the Initial Announcement Date;
- (iii) a premium of approximately 29.4% over the average closing price of approximately HK\$2.01 per Share as quoted on the Stock Exchange for the 30 trading days immediately before the Initial Announcement Date;
- (iv) a premium of approximately 33.3% over the average closing price of approximately HK\$1.95 per Share as quoted on the Stock Exchange for the 60 trading days immediately before the Initial Announcement Date;
- (v) a premium of approximately 33.3% over the average closing price of approximately HK\$1.95 per Share as quoted on the Stock Exchange for the 90 trading days immediately before the Initial Announcement Date;
- (vi) a premium of approximately 10.6% over the average closing price of approximately HK\$2.35 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (vii) a premium of approximately 15.6% over the average closing price of approximately HK\$2.25 per Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (viii) a premium of approximately 20.9% over the average closing price of approximately HK\$2.15 per Share as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (ix) a premium of approximately 24.40% over the average closing price of approximately HK\$2.09 per Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day; and
- (x) a premium of approximately 9.70% over the audited net assets per Share of approximately HK\$2.37 as at 31 December 2015.

Historical price performance of the Shares

Set out below is a chart showing the movement of the closing prices of the Shares during the period from 2 July 2015 up to the Latest Practicable Date (the “**Review Period**”), being the latest approximate one-year period up to the Latest Practicable Date, to illustrate the general trend and level of movement of the closing prices of the Shares.



Source: Bloomberg

Note: Trading in Shares was halted from 23 May 2016 to 24 May 2016 (both days inclusive) and in the morning session on 26 July 2016.

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$1.55 per Share recorded on 8 July 2015 and HK\$2.49 per Share recorded on 25 November 2015 and 26 November 2015. The Cancellation Price represents premium of approximately 67.74% and 4.42% respectively over the lowest closing price and the highest closing price of the Shares during the Review Period.

The closing prices of the Shares had shown an increase trend from 2 July 2015 to 25 November 2015 when the closing price of the Shares reached its highest point during the Review Period. Subsequently, the closing prices of the Shares ranged from HK\$1.78 to HK\$2.49 before the Initial Announcement Date. The closing prices of the Shares had rebounded after the Initial Announcement Date. Nevertheless, the closing price of the Shares as at the Latest Practicable Date was still below the Cancellation Price.

Historical trading liquidity of the Shares

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as below:

Month	No. of trading days in each month	Average daily trading volume (the "Average Volume") <i>Number of Shares</i>	% of the Average Volume to total number of issued Shares held by the public as at Latest Practicable Date <i>(Note 2)</i> %	% of the Average Volume to total number of issued Shares as at Latest Practicable Date <i>(Note 3)</i> %
2015				
July	22	12,783,318	1.38	0.54
August	21	11,319,307	1.22	0.47
September	20	4,117,328	0.44	0.17
October	20	5,181,078	0.56	0.22
November	21	3,599,096	0.39	0.15
December	22	2,396,663	0.26	0.10
2016				
January	20	2,382,700	0.26	0.10
February	18	1,749,071	0.19	0.07
March	21	3,993,452	0.43	0.17
April	20	5,333,284	0.58	0.22
May <i>(Note 1)</i>	19	14,987,046	1.62	0.63
June	21	7,625,762	0.82	0.32
July <i>(Note 1)</i>	20	11,410,580	1.23	0.48
August	22	6,944,895	0.75	0.29
September (up to and including the Latest Practicable Date)	13	8,635,319	0.93	0.36

Source: *Bloomberg*

Notes:

- Trading in Shares was halted from 23 May 2016 to 24 May 2016 (both days inclusive) and in the morning session on 26 July 2016.
- Based on 927,326,148 Shares held by the public as at the Latest Practicable Date.
- Based on 2,389,150,394 Shares in issue as at the Latest Practicable Date.

We noted from the above table that the average daily trading volume in the Shares had been thin (below 2% of the total number of issued Shares held by the public as at the Latest Practicable Date) during the Review Period. The percentage of the Average Volume to total number of issued Shares as at the Latest Practicable Date was below 1% during the Review Period. In light of that the Shares are illiquid, disposal of large block of Shares held by the Shareholders in the open market may trigger a price slump of the Shares.

Despite that the closing prices of the Shares had rebounded after the Initial Announcement Date, the closing price of the Shares as at the Latest Practicable Date was still below the Cancellation Price. Accordingly, we are of the view that Independent Shareholders (especially those with relatively sizeable shareholdings) may not be able to realise their investments in the Shares at a price higher than the Cancellation Price of the Scheme Shares, in particular when they are going to dispose of their entire holdings at a fixed cash price without disturbing the market price. We, therefore, consider that the Scheme provides an exit alternative with the Cancellation Price being fair and reasonable for the Independent Shareholders who would like to realise their investments in the Shares.

Comparison with other comparable companies

We noted that the trading multiples analysis, such as price to earnings ratio (“**PER**”), price to book ratio (“**PBR**”) and price to sales ratio (“**PSR**”), are commonly adopted valuation method in the market. For this reason, to further assess the fairness and reasonableness of the Cancellation Price, we have performed the trading multiple analysis as below. We have researched for Hong Kong listed companies which are engaged in similar line of businesses as the Group (the “**Market Comparable(s)**”), being manufacturing and distribution of sports products including footwear, apparel and accessories. Based on the aforesaid selection criteria, the Market Comparables are exhaustive.

The following table sets out the PER, PBR and PSR of the Market Comparables based on their closing price as at the Latest Practicable Date and their latest published financial information, and the implied PER, PBR and PSR of the Company based on the Cancellation Price and its latest published financial information:

Company name (Stock code)	Year end date	PER (Note 1)	PBR (Note 2)	PSR (Note 3)
Shaw Brothers Holdings Limited (953)	31 December 2015	N/A (Note 4)	2.46	7.72
361 Degrees International Limited (1361)	31 December 2015	8.21	0.78	0.98
Xtep International Holdings Limited (1368)	31 December 2015	11.06	1.38	1.33
ANTA Sports Products Limited (2020)	31 December 2015	20.89	4.75	3.92
Hosa International Ltd. (2200)	31 December 2015	14.33	2.11	3.25
Li Ning Company Limited (2331)	31 December 2015	143.71	2.49	1.25
Eagle Nice (International) Holdings Ltd. (2368)	31 March 2016	8.67	0.99	0.71
Win Hanverky Holdings Ltd. (3322)	31 December 2015	6.51	0.72	0.43
Maximum		143.71	4.75	7.72
Minimum		6.51	0.72	0.43
Average		30.48	1.96	2.45
Average (excluding outlier)		11.61	N/A	N/A
The Company	31 December 2015	13.53 (Note 5)	1.08 (Note 6)	1.71 (Note 7)

Notes:

1. The PERs were calculated based on their respective closing price per share as at the Latest Practicable Date, their respective number of issued shares as at the Latest Practicable Date and their latest full year profit as per their respective latest published annual results.
2. The PBRs were calculated based on their respective closing price per share as at the Latest Practicable Date, their respective number of issued shares as at the Latest Practicable Date and their latest net assets value as per their respective latest published annual results or interim results (as the case may be).
3. The PSRs were calculated based on their respective closing price per share as at the Latest Practicable Date, their respective number of issued shares as at the Latest Practicable Date and their latest full year revenue as per their respective latest published annual results.

4. The selected Market Comparable was loss-making for its latest financial year.
5. The implied PER was calculated based on the Cancellation Price and the latest full year profit of the Group for the year ended 31 December 2015 as extracted from the 2015 Annual Report over the total number of issued Shares as at the Latest Practicable Date.
6. The implied PBR was calculated based on the Cancellation Price and the latest net assets value of the Group for the six months ended 30 June 2016 as extracted from the 2016 Interim Report over the total number of issued Shares as at the Latest Practicable Date.
7. The implied PER was calculated based on the Cancellation Price and the latest full year revenue of the Group for the year ended 31 December 2015 as extracted from the 2015 Annual Report over the total number of issued Shares as at the Latest Practicable Date.

We noticed from the above table that,

- (i) the PERs of the Market Comparables ranged from approximately 6.51 times to 143.71 times or approximately 6.51 times to 20.89 times excluding the outlier (being Li Ning Company Limited (Stock code: 2331));
- (ii) the PBRs of the Market Comparables ranged from approximately 0.72 times to 4.75 times; and
- (iii) the PSRs of the Market Comparables ranged from approximately 0.43 times to 7.72 times.

Given that the implied PER, PBR and PSR of the Company based on the Cancellation Price are approximately 13.53 times, 1.08 times and 1.71 times respectively, they are within the said PER, PBR, PSR ranges of the Market Comparables.

(7) The Option Offer

Pursuant to the Option Offer made by the Offeror, the Option Offer Price is offered for the Shares underlying each vested and unvested outstanding Share Option held as at the Option Offer Record Date in consideration for the cancellation of the relevant Share Options.

The Option Offer Price of HK\$0.662 represents the “see-through” price for the outstanding Share Options, which is the relevant Cancellation Price minus the relevant per Share exercise price of HK\$1.938 under the Share Options. We consider that the consideration offered on a “see-through” basis under the Option Offer is fair and reasonable.

The Option Offer is conditional upon the Scheme becoming effective and binding.

As at the Latest Practicable Date, details of the all vested and unvested Share Options, pursuant to the share option scheme of the Company adopted on 8 September 2009, were as follows:

Share Options of the Company	“See through” price	Outstanding options	Outstanding options	Total outstanding options
<i>Exercise price (HK\$)</i>	<i>(HK\$)</i>	<i>(Vested)</i>	<i>(Unvested)</i>	
1.938	0.662	9,850,000	2,712,000	12,562,000

With reference to the Explanatory Memo, any outstanding Share Options granted under the Share Option Scheme that are not exercised or cancelled pursuant to the acceptance of the Option Offer in accordance with the terms and conditions of the Option Offer will lapse automatically. Therefore, Optionholders should be advised to accept the Option Offer.

Detailed terms of the Option Offer are set out under the section headed “9. Share Options and the Option Offer” in the Explanatory Memo.

RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular:

- (i) given that (a) the growth rates of the Group’s gross profit and profit for FY2015 decreased as compared to those of FY2014; and (b) there was no obvious growing trend in the Group’s profitability during the five years ended 31 December 2015, the continuous growth of the Group’s profitability is not guaranteed;
- (ii) the Cancellation Price represents premium of approximately 67.74% and 4.42% respectively over the lowest closing price and the highest closing price of the Shares during the Review Period;
- (iii) the implied PER, PBR and PSR of the Company based on the Cancellation Price are within the PER, PBR, PSR range of the Market Comparables; and
- (iv) disposal of large block of Shares held by the Independent Shareholders in the open market may trigger a price slump of the Shares as a result of the thin trading volume of the Shares,

we consider that the Scheme and the Proposal provide an opportunity to the Independent Shareholders, in particular those who hold large blocks of the Shares, to realise their investments in the Company and that the terms of the Scheme and the Proposal are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve the Scheme and the Proposal.

Besides that, since (i) the Option Offer Price is offered for the Shares underlying each vested and unvested outstanding Share Option held as at the Option Offer Record Date in consideration for the cancellation of the relevant Share Options; and (ii) the consideration offered on a “see-through” basis under the Option Offer is fair and reasonable, we consider that the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned.

Having also taken in to account that any outstanding Share Options granted under the Share Option Scheme that are not exercised or cancelled pursuant to the acceptance of the Option Offer in accordance with the terms and conditions of the Option Offer will lapse automatically, we advise the Independent Board Committee to recommend the Optionholders to accept the Option Offer.

As different Shareholders/Optionholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholders/Optionholders who may require advice in relation to any aspect of the Scheme Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

This Explanatory Memorandum constitutes the statement required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

**SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES
IN CONSIDERATION OF THE OFFEROR
AGREEING TO PAY THE CANCELLATION PRICE**

1. INTRODUCTION

The Offeror and the Company jointly issued an announcement dated 26 July 2016, which stated that on 26 July 2016, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders regarding the proposed privatisation of the Company by way of the Scheme.

The Scheme and the Proposal involve the cancellation of all Scheme Shares in exchange for the Cancellation Price, and the subsequent issue of new Shares to the Offeror, as a result of which it is intended that the Company will be owned by the Offeror as to 38.81% assuming no Share Option(s) are exercised before the Scheme Record Date and the listing of the Shares on the Stock Exchange will be withdrawn. The expected last date for trading in the Shares on the Stock Exchange will be Monday, 24 October 2016.

The Offeror is making the Option Offer to holders of outstanding Share Options to cancel all vested and unvested outstanding Share Options in accordance with Rule 13 of the Takeovers Code. The Option Offer will be conditional on the Scheme becoming effective.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal, which are to be implemented by the Scheme, and the Option Offer, and to provide Shareholders and Optionholders with other relevant information in relation to the Scheme, the Proposal and the Option Offer, in particular to provide the intention of the Offeror with regard to the Company and the shareholding structure of the Company before and after the Scheme and the Proposal.

Particular attention of the Shareholders and Optionholders is drawn to the following sections of this Scheme Document: (a) the Letter from the Board set out in Part IV of this Scheme Document; (b) the Letter from the Independent Board Committee set out in Part V of this Scheme Document; (c) the Letter from Gram Capital set out in Part VI of this Scheme Document; and (d) the terms of the Scheme set out in Appendix III to this Scheme Document.

2. TERMS OF THE SCHEME AND THE PROPOSAL

The Proposal is to be implemented by way of the Scheme and the Option Offer.

Under the Scheme, the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder whose name appears on the register of members of the Company as at the Scheme Record Date will be entitled to receive the Cancellation Price. The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to a dividend (if any) declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any). The Company does not expect to declare any further dividend on or before the Effective Date.

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$50,000,000 divided into 5,000,000,000 Shares of par value HK\$0.01, and the issued share capital of the Company was HK\$23,891,503.94 divided into 2,389,150,394 Shares of par value HK\$0.01. All of the Shares rank equally in all respects as regards to rights to capital, dividends and voting. As at the Latest Practicable Date, the Shareholders (other than the Offeror and Offeror Concert Parties) were interested in 927,326,148 Shares, representing approximately 38.81% of the issued share capital of the Company.

As at the Latest Practicable Date, there were certain outstanding Share Options granted under the Share Option Scheme, pursuant to which up to a maximum of 12,562,000 new Shares may be issued. The relevant per Share exercise price under the Share Options is HK\$1.938.

In the event that any outstanding Share Option is vested and exercised prior to the Meeting Record Date, the relevant registered holder of the Share Option converted from the outstanding Share Option shall be entitled to attend and vote at the Court Meeting and the EGM in respect of the relevant Share. The latest time for holders to exercise their vested and outstanding Share Option in order to become entitled to vote at the Court Meeting and the EGM is 3:30 p.m. on Thursday, 13 October 2016. In the event that any outstanding Share Option is vested and exercised prior to the Latest Option Exercise Date, the relevant holder of the Share converted from the Share Option will be subject to and eligible for the Scheme.

Any holder of outstanding Share Option(s), whose Share Option remain unvested or whose Share Option have vested but have not been exercised as at the Meeting Record Date and/or the Latest Option Exercise Date (as the case may be), will not be entitled to attend and vote at the Court Meeting and the EGM in respect of such Share Option(s), and will not be eligible to participate in the Scheme but, subject to the terms of the Share Option Scheme and their grant, still be eligible to participate in the Option Offer in respect of such Share Option(s), respectively.

Apart from Ms. Wu Bingrui, there are no other holders of Share Option(s) who are Offeror Concert Parties. Save for the Share Options pursuant to which up to a maximum of 12,562,000 Shares may be issued, there are no outstanding options, warrants, derivatives or other securities issued by the Company that carry a right to subscribe for or which are convertible into Shares.

Details of the Option Offer made by the Offeror in respect of the Share Options are set out in the section headed "9. Share Options and the Option Offer" below, and in the Form of Option Offer Letter set out in Appendix VI to this Scheme Document.

After the Scheme becomes effective, the listing of the Shares on the Stock Exchange will be withdrawn and the Company will be owned by the Offeror as to 38.81% assuming no Share Option(s) are exercised before the Scheme Record Date. The Scheme and the Proposal are conditional upon the fulfillment or waiver, as applicable, of the Conditions as described in the paragraph headed "4. Conditions of the Proposal and the Scheme" below. All the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent

applicable, as the Executive may consent and the Grand Court may direct), failing which the Scheme and the Proposal will lapse. Further announcements on any changes regarding the timetable of the Scheme and the Proposal will be made as and when necessary.

If the Scheme and the Proposal do not become unconditional, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange.

Settlement of the Cancellation Price and the Option Offer Price will be implemented in full in accordance with the terms of the Scheme, the Proposal and the Option Offer, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder or Optionholders.

3. CANCELLATION CONSIDERATION

The Cancellation Price of HK\$2.60 per Scheme Share represents:

- a premium of approximately 35.4% over the closing price of HK\$1.92 per Share as quoted on the Stock Exchange on the trading day immediately before the Initial Announcement Date, being the date of the announcement made by the Company pursuant to Rule 3.7 of the Takeovers Code;
- a premium of approximately 29.4% over the average closing price of approximately HK\$2.01 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days immediately before the Initial Announcement Date;
- a premium of approximately 33.3% over the average closing price of approximately HK\$1.95 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days immediately before the Initial Announcement Date;
- a premium of approximately 33.3% over the average closing price of approximately HK\$1.95 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days immediately before the Initial Announcement Date;
- a premium of approximately 27.5% over the average closing price of approximately HK\$2.04 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days immediately before the Initial Announcement Date;
- a premium of approximately 10.6% over the closing price of HK\$2.35 per Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 15.6% over the average closing price of approximately HK\$2.25 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

- a premium of approximately 20.9% over the average closing price of approximately HK\$2.15 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 24.4% over the average closing price of approximately HK\$2.09 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;
- a premium of approximately 27.5% over the average closing price of approximately HK\$2.04 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 9.7% over the audited consolidated net asset value per Share of approximately HK\$2.37 as at 31 December 2015; and
- a premium of approximately 5.3% over the closing price of HK\$2.47 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

4. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfillment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;
- (b) the approval of the Scheme (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting provided that the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by the Independent Shareholders;
- (c)
 - (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at an extraordinary general meeting of the Company to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; and
 - (ii) after the above reduction of share capital, the passing of an ordinary resolution by the Shareholders at an extraordinary general meeting of the Company to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the

aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror;

- (d) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (e) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under Sections 15 and 16 of the Companies Law in relation to the reduction of the issued share capital of the Company;
- (f) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals (together, the "**Approvals**") in connection with the Proposal and the Option Offer having been obtained from, given by or made with or by (as the case may be) the relevant Authorities, in the Cayman Islands, Hong Kong, the PRC and/or any other relevant jurisdictions;
- (g) all necessary Approvals in connection with the Proposal and the Option Offer remaining in full force and effect without variation, and all necessary statutory or regulatory requirements or obligations in all relevant jurisdictions having been complied with and no requirement or obligation having been imposed by any Authorities which is not provided for, or is in addition to requirements provided for, in any relevant laws, rules, regulations or codes in connection with the Proposal, the Option Offer or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (h) all necessary consents ("**Consents**") which may be required for the implementation of the Proposal, the Scheme or the Option Offer under any existing contractual obligations of the Group being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business, assets or liabilities of the Group;
- (i) no Authority in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal, the Scheme or the Option Offer or the implementation in accordance with their respective terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal, the Scheme or the Option Offer or the implementation in accordance with their respective terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal, the Scheme and the Option Offer; and

- (j) since 26 July 2016 there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal, the Scheme or the Option Offer).

The Offeror reserves the right to waive the Conditions set out in paragraphs (f), (g), (h), (i) and/or (j) above either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c), (d) and (e) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme or the Option Offer if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal, the Scheme or the Option Offer.

As at the Latest Practicable Date, none of the Conditions had been fulfilled or waived. With regard to the Conditions set out under paragraphs (f) to (h) above, as at the Latest Practicable Date, neither the Offeror nor the Company was aware that any of the Approvals and Consents was required.

All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse and the Option Offer will not be implemented. The Company has no right to waive any of the Conditions.

Assuming that the above Conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on or before Monday, 31 October 2016 (Cayman Islands time). Further announcements will be made including, in particular, in relation to (i) the results of the Court Meeting and the EGM and, if the resolutions are passed at those meetings; (ii) the result of the Grand Court hearing of the petition to sanction of the Scheme and to confirm the capital reduction; (iii) the Scheme Record Date; (iv) the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange as further set out in “Part III – Expected Timetable” of this Scheme Document.

If the Scheme is not approved or the Proposal otherwise lapses, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange. An announcement will be made in due course in such event.

Shareholders and potential investors should be aware that the implementation of the Proposal, the Scheme or the Option Offer is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal, the Scheme and the Option Offer may or may not be implemented and the Scheme may or may not become effective. Shareholders and potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their licensed securities dealer or registered institution in securities, bank manager, solicitor or other professional advisers.

5. THE SCHEME AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Grand Court directs.

Section 86 of the Companies Law provides that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company. The Grand Court has been requested to order the convening of a meeting of a class of members of the Company being the Scheme Shareholders.

6. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast by the Independent Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

For the purpose of this vote, the Independent Shareholders comprise all the Shareholders as at the Meeting Record Date other than the Offeror and the Offeror Concert Parties. Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 927,326,148 Scheme Shares. On that basis, and assuming no Share Option(s) are exercised before the Meeting Record Date, 10% of the votes attached to Scheme Shares held by all the Independent Shareholders referred to in (b) above therefore represent approximately 92,732,615 Shares as at the Latest Practicable Date. The latest time for Optionholders to exercise their vested and outstanding Share Options in order to become entitled to vote at the Court Meeting and the EGM is 3:30 p.m. on Thursday, 13 October 2016.

7. BINDING EFFECT OF THE SCHEME AND THE PROPOSAL

Upon the Scheme and the Proposal becoming effective, it will be binding on the Company and all Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the EGM.

8. SCHEME SHARES

On the assumption that no outstanding Share Option(s) are exercised before the Scheme Record Date and that there is no change in the Shareholders of the Company, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholder	As at the Latest Practicable Date		Upon completion of the Proposal	
	Number of Shares	% (approximate)	Number of Shares	% (approximate)
Offeror				
Xu's Sport (Note 1)	–	–	927,326,148	38.81
Offeror Concert Party				
The Controlling Shareholder (Note 2)	911,804,246	38.16	911,804,246	38.16
Alpha Top (Note 3)	273,060,000	11.43	273,060,000	11.43
Brilliant Lead (Note 4)	<u>276,960,000</u>	<u>11.59</u>	<u>276,960,000</u>	<u>11.59</u>
Total number of Shares held by the Offeror and the Offeror Concert Parties	<u>1,461,824,246</u>	<u>61.19</u>	<u>2,389,150,394</u>	<u>100.00</u>
Public shareholder				
Total number of Shares held by the Independent Shareholders	<u>927,326,148</u>	<u>38.81</u>	<u>–</u>	<u>–</u>
Total	<u><u>2,389,150,394</u></u>	<u><u>100.00</u></u>	<u><u>2,389,150,394</u></u>	<u><u>100.00</u></u>

Notes:

- The issued shares of the Offeror were held by Mr. Xu Jingnan (the Chairman of the Company and an executive Director), Mr. Xu Zhihua (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhida) and Mr. Xu Zhida (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhihua) as to 40%, 30% and 30%, respectively.
- The issued shares of the Controlling Shareholder were held by Mr. Xu Jingnan (the Chairman of the Company and an executive Director) and Ms. Wu Tigao (a non-executive Director and the spouse of Mr. Xu Jingnan) as to 70% and 30%, respectively.
- Alpha Top was wholly-owned by Mr. Xu Zhihua (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhida).
- Brilliant Lead was wholly-owned by Mr. Xu Zhida (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhihua).
- All percentages in the above table were approximations.

Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, the Offeror, namely Xu's Sport, will beneficially hold approximately 38.81% of the issued share capital of the Company, on the assumption that no Share Option(s) are exercised before the Scheme Record Date and there is no other change in shareholding in the Company before completion of the Proposal.

As at the Latest Practicable Date, there were 2,389,150,394 Shares in issue and the Scheme Shareholders were interested in 927,326,148 Shares, representing approximately 38.81% of the issued share capital of the Company.

As at the Latest Practicable Date, the Offeror did not hold any Shares. As at the Latest Practicable Date, the Offeror Concert Parties legally and/or beneficially held in aggregate 1,461,824,246 Shares, representing approximately 61.19% of the issued share capital of the Company. The Shares legally and/or beneficially held by the Offeror Concert Parties will not form part of the Scheme Shares and will not be voted on the Scheme or the Court Meeting. Further, the Offeror and the Offeror Concert Parties will abstain from voting at the Court Meeting.

As at the Latest Practicable Date, except as disclosed in the section headed "9. Share Options and the Option Offer" in this Explanatory Memorandum, there were no options, warrants or convertible securities in respect of the Shares held by the Offeror or the Offeror Concert Parties or outstanding derivatives in respect of the Shares entered into by the Offeror or the Offeror Concert Parties as at the Latest Practicable Date, and save for the Share Options pursuant to which up to a maximum of 12,562,000 new Shares may be issued, the Company did not have in issue any warrants, options, derivatives, convertible securities or other securities convertible into the Shares as at the Latest Practicable Date.

9. SHARE OPTIONS AND THE OPTION OFFER

The Share Option Scheme

The Company adopted the Share Option Scheme on 8 September 2009, pursuant to which, among others, Directors (including executive and non-executive Directors, including independent non-executive Directors) and employees of the Group are eligible for the grant of Share Options. As at the Latest Practicable Date, there were certain Share Options granted and outstanding, pursuant to which up to a maximum of 12,562,000 new Shares may be issued, and of which the outstanding Share Option held by Ms. Wu Bingrui (the spouse of Mr. Xu Zhida (an executive Director) and an Offeror Concert Party) entitled her to subscribe for 300,000 new Shares, and the balance of the Share Options are held by Dr. Xiang Bing (being an independent non-executive Director) and certain employees of the Group.

Among the abovementioned Share Options, outstanding Share Options with respect to 9,850,000 new Shares had already vested as at the Latest Practicable Date, and outstanding Share Options with respect to 2,712,000 new Shares are expected to vest on 1 January 2017. The exercise of all the said Share Options in full would result in the issue of 12,562,000 new Shares, representing approximately 0.526% of the issued share capital of the Company as at the Latest Practicable Date

and approximately 0.523% of the issued share capital of the Company as enlarged by the issue of such new Shares. The relevant per Share exercise price under the Share Option is HK\$1.938.

On the assumption that all the above-mentioned outstanding vested Share Options as at the Latest Practicable Date will be exercised before the Scheme Record Date and not lapse, and that there will be no other change in shareholdings of the Company, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholder	As at the Latest Practicable Date		Upon completion of the Proposal	
	<i>Number of Shares</i>	<i>% (approximate)</i>	<i>Number of Shares</i>	<i>% (approximate)</i>
Offeror				
Xu's Sport	–	–	937,176,148	39.07
Offeror Concert Party				
The Controlling Shareholder	911,804,246	38.16	911,804,246	38.01
Alpha Top	273,060,000	11.43	273,060,000	11.38
Brilliant Lead	276,960,000	11.59	276,960,000	11.54
Ms. Wu Bingrui	–	–	–	–
Total number of Shares held by the Offeror and the Offeror Concert Parties	<u>1,461,824,246</u>	<u>61.19</u>	<u>2,399,000,394</u>	<u>100.00</u>
Public shareholder				
Total number of Shares held by the Independent Shareholders	<u>927,326,148</u>	<u>38.81</u>	<u>–</u>	<u>–</u>
Total	<u><u>2,389,150,394</u></u>	<u><u>100.00</u></u>	<u><u>2,399,000,394</u></u>	<u><u>100.00</u></u>

The Option Offer

Pursuant to the Option Offer made by the Offeror, the Option Offer Price is offered for the Shares underlying each vested and unvested outstanding Share Option held as at the Option Offer Record Date in consideration for the cancellation of the relevant Share Options.

The Option Offer Price of HK\$0.662 represents the “see-through” price for the outstanding Share Options, which is the relevant Cancellation Price minus the relevant per Share exercise price of HK\$1.938 under the Share Options.

The Option Offer is conditional upon the Scheme becoming effective and binding.

Irrevocable Undertakings

Each of the Optionholders has undertaken not to exercise his/her Share Option(s) prior to the Effective Date.

Share Options exercised prior to the Meeting Record Date

In the event that any outstanding Share Option is vested and exercised prior to the Meeting Record Date, the relevant registered holder of the Share issued upon conversion of the relevant Share Option shall be entitled to attend and vote at the Court Meeting and/or the EGM (as the case may be) in respect of the relevant Share. In the event that any outstanding Share Option is vested and exercised prior to the Latest Option Exercise Date, the relevant holder of the Share issued upon conversion of the relevant Share Option shall be subject to and eligible for the Scheme. Optionholders will not be entitled to exercise the Share Options after the Latest Option Exercise Date.

Share Options not exercised prior to the Meeting Record Date and/or the Latest Option Exercise Date

Any holder of outstanding Share Option(s) whose Share Option remains unvested or whose Share Option has vested but has not been exercised as at the Meeting Record Date and/or the Latest Option Exercise Date (as the case may be), will not be entitled to attend and vote at the Court Meeting and the EGM in respect of such Share Option, and will not be eligible to participate in the Scheme but, subject to the terms of the Share Option Scheme and their grant, will still be eligible to participate in the Option Offer in respect of such Share Option if they remain Optionholders as at the Option Offer Record Date.

Payment of Option Offer Price

Each holder of outstanding Share Option(s) as at the Option Offer Record Date who accepts the Option Offer and lodges a completed Form of Acceptance by the prescribed deadline will be entitled to receive the Option Offer Price as set out in their respective Option Offer Letters that are sent to each holder of the Share Option(s) individually. The Option Offer Price of HK\$0.662 represents the “see-through” price for the Share Options, which is the relevant Cancellation Price minus the relevant per Share exercise price of HK\$1.938 under the Share Options.

The cheques for payment of the Option Offer Price under the Option Offer will be despatched within seven Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of a valid acceptance. Please refer to the expected timetable as set out in Part III of this Scheme Document for details.

All payments in respect of the Option Offer Price will be made in Hong Kong dollars. Settlement of the Option Offer Price to which holders of Share Option(s) are entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right which the Offeror may otherwise be, or claim to be, entitled against any such holder of Share Option(s).

Option Offer Letter

The Option Offer Letter setting out the terms and conditions of the Option Offer is being despatched separately to holders of the Share Options and is substantially in the form set out in Appendix VI – Form of Option Offer Letter in accordance with the terms and conditions of the Option Offer Letter to this Scheme Document.

Lapse of Share Options

Any outstanding Share Options granted under the Share Option Scheme that are not exercised or cancelled pursuant to the acceptance of the Option Offer in accordance with the terms and conditions of the Option Offer will lapse automatically.

10. TOTAL CONSIDERATION

On the assumption that no outstanding Share Option(s) will be exercised or lapse before the Scheme Record Date, the amount of cash required to satisfy the consideration payable for the cancellation of the Scheme Shares (before taking into account the Option Offer to be made) is approximately HK\$2,411,047,985, and the amount of cash required for the Option Offer is approximately HK\$8,316,044.

On the assumption that all the outstanding (vested and unvested) Share Options will be exercised before the Scheme Record Date, the amount of cash required to satisfy the consideration payable for the cancellation of the Scheme Shares is approximately HK\$2,443,709,185.

The Offeror intends to finance the cash required for the cancellation of the Scheme Shares and the Option Offer by a loan facility from CMB. Huatai Financial, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the cancellation of the Scheme Shares and the Option Offer in full.

11. REASONS FOR AND BENEFITS OF THE SCHEME AND THE PROPOSAL

The Company plans to implement a series of long-term growth strategies, which may affect the Company's short-term growth profile and may result in divergence between the Offeror's views on the Company's potential long-term value and investors' views on the Company's share price. Following the implementation of the Proposal and the Option Offer, the Offeror and the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

Since its listing in September 2009, the Company's share price performance has not been satisfactory. As a well-recognised sportswear company in China, the Company values its reputation. The Offeror considers that the depressed share price has had an adverse impact on the Company's reputation with customers, and therefore on its business, and also on staff morale. The implementation of the Proposal could eliminate this adverse impact.

The liquidity of Shares has been at a low level over a long period of time. The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 5,881,947 Shares per day, representing only approximately 0.25% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

The Proposal is intended to provide the Scheme Shareholders with an opportunity to realise their investments in the Company for the following reasons:

- **Premium valuation:** The Cancellation Price of HK\$2.60 per Scheme Share represents a premium of approximately 35.4% over the closing price per Share on the trading day immediately before the Initial Announcement Date and a premium of approximately 10.6% over the closing price per Share on the Last Trading Day. The Cancellation Price also represents a premium of approximately 15.6% and 20.9% over the average closing prices of approximately HK\$2.25 and approximately HK\$2.15 per Share for 30 and 60 consecutive trading days up to and including the Last Trading Day, respectively, and a premium of approximately 5.3% over the closing price per Share on the Latest Practicable Date.
- **Certain and immediate premium for low liquidity in the Shares:** The Scheme provides an opportunity for the holders of the Scheme Shares to dispose of their Shares expeditiously and receive cash at a price above the prevailing market price, particularly in light of the underperformance of the share price since the Company's listing in 2009. Given the low liquidity of the Shares, it is also challenging for the holders of the Scheme Shares to realize their Shares in the stock market without adversely affect the market price of the Shares. The Scheme also affords the Scheme Shareholders the opportunity, if they so wish, to realise their investments in the Company and invest the monies received in alternative investments with higher liquidity.

In addition, the listing of Shares requires the Company to bear administrative, compliance and other listing-related costs and expenses; if these costs and expenses are eliminated, the funds saved could be used for the Company's business operations.

12. INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 29 September 2009. The Group is principally engaged in the manufacture and distribution of sports products including footwear, apparel and accessories.

As at the Latest Practicable Date, the Company was solvent and was not unable to pay its debts as they fall due and will not become unable to do so immediately after the date of this Scheme Document.

13. INFORMATION ON THE OFFEROR**Offeror**

The Offeror is a Hong Kong incorporated company with limited liability established for the purpose of the Scheme and the Option Offer and is held by Mr. Xu Jingnan (the Chairman of the Company and an executive Director), Mr. Xu Zhihua (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhida) and Mr. Xu Zhida (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhihua) as to 40%, 30% and 30%, respectively. After the incorporation of the Offeror on 21 June 2016, Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida acquired 4 shares, 3 shares and 3 shares of the Offeror, respectively, from Kingsmark Secretaries Limited at the consideration of HK\$1.00 per share, on 30 June 2016. On 22 July 2016, each of Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida further subscribed for 4 shares, 3 shares and 3 shares of the Offeror, at the subscription price of HK\$1,000,000, HK\$750,000 and HK\$750,000, respectively.

Offeror Concert Parties

The Controlling Shareholder, Alpha Top and Brilliant Lead are parties acting in concert with the Offeror.

The issued shares of the Controlling Shareholder are held by Mr. Xu Jingnan (the Chairman of the Company and an executive Director) and Ms. Wu Tigao (a non-executive Director and the spouse of Mr. Xu Jingnan) as to 70% and 30%, respectively. The Controlling Shareholder is principally engaged in the business of investment holding.

Alpha Top is wholly-owned by Mr. Xu Zhihua (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhida). Alpha Top is principally engaged in the business of investment holding.

Brilliant Lead is wholly-owned by Mr. Xu Zhida (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhihua). Brilliant Lead is principally engaged in the business of investment holding.

14. INTENTIONS OF THE OFFEROR

If the Proposal and the Scheme are successfully implemented, the Offeror intends that the Company will continue to carry on its existing business. Under current market conditions, the Offeror has no plans to effect any redundancies in respect of the employees of the Group (other than in the ordinary course of business). The Offeror and the Company have no intention to make any changes to the existing operation and business of the Group nor do they have any plans to redeploy any of the fixed assets of the Group after completion of the Scheme and the Proposal. However, the Offeror and the Company will continue to assess business opportunities for the Group as they arise.

15. WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates in respect of the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company does not intend to retain its listing on the Stock Exchange and has applied to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange conditional upon the Scheme becoming effective in accordance with Rule 6.15(2) of the Listing Rules.

The Scheme Shareholders will be notified by way of an announcement of the exact dates of the last day for dealing in the Shares on the Stock Exchange and the day on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. A detailed timetable of the Scheme has been included in “Part III – Expected Timetable” in this Scheme Document.

16. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with them in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses announce an offer or possible offer for the Company, except with the consent of the Executive.

If the Independent Board Committee or Gram Capital does not recommend the Proposal, and the Scheme is not approved, all expenses incurred by the Company in connection therewith shall be borne by the Offeror in accordance with Rule 2.3 of the Takeovers Code.

17. OVERSEAS SHAREHOLDERS AND OVERSEAS OPTIONHOLDERS

The making of (i) the Proposal to the Scheme Shareholders; and (ii) the Option Offer to the holders of outstanding Share Options, who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders or Optionholders, respectively, are located. Such Scheme Shareholders and Optionholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders and overseas Optionholders wishing to take any action in relation to the Scheme, the Proposal and the Option Offer, respectively, to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with any other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Any acceptance by such Scheme Shareholders and Optionholders will be deemed to constitute a representation and warranty from such persons to the Offeror, the Company and their respective advisers, including Huatai Financial, the financial adviser to the Offeror, that those local laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

In the event that the despatch of the Scheme Document to overseas Shareholders or overseas holders of outstanding Share Options is prohibited by any relevant law or regulation or may only be effected after compliance with conditions or requirements that the Directors regard as unduly onerous or burdensome (or otherwise not in the best interests of the Company or the Shareholders), subject to a waiver being granted by the Executive as described below, the Scheme Document will not be despatched to such overseas Shareholders or such overseas Optionholders. For that purpose, the Company will apply for any waivers as may be required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code at such time. Any such waiver will only be granted if the Executive is satisfied that it would be unduly burdensome to despatch the Scheme Document to such overseas Shareholders or such overseas Optionholders. In granting the waiver, the Executive will be concerned to see that all material information in the Scheme Document is made available to such overseas Shareholders and overseas Optionholders, as the case may be.

In the event that there are overseas Shareholders as at the Scheme Record Date, the Company will apply for the above mentioned waivers required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code.

Scheme Shareholders and Optionholders are recommended to consult their own professional advisers if they are in any doubt as to their respective positions.

18. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Monday, 31 October 2016, it is proposed that the register of members of the Company will be closed from Friday, 28 October 2016 (or such other date as the Shareholders may be notified by way of an announcement) onwards in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, Shareholders should ensure that the transfers of their Shares are lodged with the Hong Kong branch share registrar of the Company for registration in their names or in the names of their nominees before 4:30 p.m. on Thursday, 27 October 2016. The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited, which is located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Payment of the Cancellation Price to Scheme Shareholders

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company as at the Scheme Record Date. On the basis that the Scheme becomes effective on or about Monday, 31 October 2016 (Cayman Islands time), cheques for payment of the Cancellation Price will be paid for by the Offeror as soon as possible but in any event within 7 Business Days following the Scheme having become effective and accordingly, the cheques are expected to be despatched on or before Wednesday, 9 November 2016. In the absence of any specific instructions to the contrary received in writing by Tricor Investor Services Limited, the Hong Kong branch share registrar of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, cheques will be sent by ordinary post addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Company and Huatai Financial will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and place all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Company.

Before the expiry of six years from the Effective Date, the Offeror shall make payments from the deposit or custodian account of the sums, together with interest thereon, to persons who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on or about Monday, 31 October 2016 (Cayman Islands time).

Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Scheme Shareholder.

Payment of Option Offer Price to Optionholders

On the basis that the latest time to accept the Option Offer and closing date of the Option Offer fall on 4:00 p.m., Monday, 14 November 2016, cheques for payment of the Option Offer Price payable under the Option Offer are expected to be despatched on or before Wednesday, 23 November 2016. Cheques will be sent by posting the same by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Company, Huatai Financial or any of them will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cancel or countermand payment of any such cheques which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Offeror's name with a licensed bank in Hong Kong selected by the Company.

The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date, make payments therefrom to persons who satisfy the Offeror that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Settlement of the consideration to which the Optionholders are entitled under the Option Offer will be implemented in full in accordance with the terms of the Option Offer, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Optionholders.

19. TAXATION

Hong Kong stamp duty and tax consequences

As the Scheme and the Proposal do not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective.

Similarly, as the acceptance of the Option Offer and the payment of the cash consideration for the cancellation of the Share Options does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance upon the acceptance of the Option Offer or the payment of the cash consideration under the Option Offer.

The Scheme Shareholders and the holders of outstanding Share Options, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme, the Proposal or the Option Offer and, in particular, whether the receipt of the Cancellation Price or of cash consideration under the Option Offer would make such Scheme Shareholder or Optionholder liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of the Offeror, the Company and Huatai Financial or any of their respective directors, officers or associates or any other person involved in the Scheme, the Proposal or the Option Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Scheme or the Option Offer.

20. COURT MEETING AND EGM

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting. The Scheme will be subject to the approval by the Independent Shareholders at the Court Meeting in the manner referred to in the paragraphs headed “4. Conditions of the Proposal and the Scheme” and “6. Additional Requirements as Imposed by Rule 2.10 of the Takeovers Code” in this Explanatory Memorandum.

The EGM will be held after the adjournment or conclusion of the Court Meeting for the purpose of considering and if thought fit passing (i) the special resolution by the Shareholders to approve the reduction of the issued share capital of the Company by cancelling the Scheme Shares; and (ii) the ordinary resolution

by the Shareholders to immediately restore the issued share capital of the Company to its former amount by the issue of the same number of the Shares as the number of Scheme Shares cancelled, credited as fully paid, for issuance to the Offeror.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement.

Court Meeting

Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, the Scheme Shareholders, present and voting either in person or by proxy, will be entitled to vote their Scheme Shares in favour of the Scheme or against it.

In accordance with the direction from the Grand Court, HKSCC Nominees Limited shall be permitted to vote once for and once against the Scheme in accordance with instructions received by it from the Investor Participants and other CCASS Participants. For the purpose of calculating the “majority in number”, HKSCC Nominees Limited may be counted as a multi-headed Shareholder voting once “for” and once “against” the Scheme. The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

The Scheme is conditional upon, among other things, (A) approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Shares present and voting in person or by proxy at the Court Meeting, and (B) approval by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voting either in person or by proxy at the Court Meeting provided that (i) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Shares held by the Independent Shareholders that are voting either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Independent Shareholders present and voting either in person or by proxy at Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by all the Independent Shareholders.

In accordance with the Companies Law, the “75% in value” requirement as described above will be met if the total value of Scheme Shares being voted by the Scheme Shareholders present and voting either in person or by proxy in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement as described above will be met if the number of Scheme Shareholders present and voting either in

person or by proxy at the Court Meeting in favour of the Scheme exceeds the number of Scheme Shareholders present and voting either in person or by proxy at the Court Meeting against the Scheme.

Notice of the Court Meeting is set out in Appendix IV to this Scheme Document. The Court Meeting will be held at 3:00 p.m. (Hong Kong time) on Wednesday, 19 October 2016 at Rooms 1 & 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Hong Kong.

EGM

All the Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to, among other things, (i) the special resolution by Shareholders to approve the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares; and (ii) the ordinary resolution by Shareholders to immediately thereafter increase and restore the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of Scheme, credited as fully paid, for issuance to the Offeror.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by the Shareholders as being entitled to do so, present and voting in person or by proxy at the EGM, are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more than 50% of the votes are cast in favour of the ordinary resolution by the Shareholders as being entitled to do so, present and voting either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Shareholder may vote some of their Shares in favour of the special resolution and/or the ordinary resolutions and any or all of the balance of their Shares against the special resolution and/or the ordinary resolutions (and vice versa).

Each of the Controlling Shareholder, Brilliant Lead and Alpha Top has undertaken that the Shares legally and beneficially held by each of them will be voted in favour of the special and the ordinary resolutions to be proposed at the EGM.

At the EGM, the special and the ordinary resolutions will be put to the vote by way of poll as required under Rule 13.39(4) of the Listing Rules.

Notice of EGM is set out in Appendix V to this Scheme Document. The EGM will be held at 3:20 p.m. (Hong Kong time) (or immediately after the conclusion or adjournment of the Court Meeting convened on the same day and place) on Wednesday, 19 October 2016 at Rooms 1 & 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Hong Kong.

Assuming that the Conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on or before Monday, 31 October 2016 (Cayman Islands time). Further announcements will be made including, in particular, in relation to (i) the results of the Court Meeting and the EGM and, if all the resolutions are passed at those meetings; (ii) the result of the hearing of the petition for the sanction of the Scheme by the Grand Court; (iii) the Scheme Record Date; (iv) the Effective Date; and (v) the date of withdrawal of the listing of the Shares on the Stock Exchange as further set out in “Part III – Expected Timetable” of this Scheme Document.

21. BENEFICIAL OWNERS

Beneficial Owners are urged to have their names entered in the register of members of the Company as soon as possible for, among other things, the following reasons:

- (a) to enable the Beneficial Owners to become Shareholders so that they can attend the Court Meeting in the capacity as members of the Company or be represented by proxies to be appointed by them and to be included for the purpose of calculating the majority in number of Shareholders as required under Section 86 of the Companies Law in their capacity as members of the Company;
- (b) to enable the Company to properly classify members of the Company as Scheme Shareholders for the purposes of Section 86 of the Companies Law; and
- (c) to enable the Company and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective.

No person shall be recognised by the Company as holding any Shares upon any trust. In the case of any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of such Registered Owner.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such person(s) if they wish to vote in respect of the Scheme. Beneficial Owners should contact their broker, custodian, nominee or such other relevant person in advance of the deadline(s) in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with

HKSCC in relation to the manner in which Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees Limited with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

22. GENERAL

Huatai Financial has been appointed as the financial adviser to the Offeror in connection with the Proposal and the Option Offer.

The Directors (other than those on the Independent Board Committee) are Offeror Concert Parties, and thus they recommend that the Independent Shareholders and the Optionholders should carefully consider the views and recommendations of the Independent Board Committee. The independent non-executive Directors forming the Independent Board Committee, namely Dr. Xiang Bing, Mr. Feng Lisheng and Mr. Zhu Haibin have provided their views and recommendations in the letter from the Independent Board Committee in Part V of this Scheme Document.

Mr. Xu Jingnan, Mr. Xu Zhihua, Mr. Xu Zhida and Ms. Wu Tigao, being Directors and who are interested in the Scheme, the Proposal and the Option Offer have abstained from voting in respect of the board resolutions of the Company in relation to the Proposal and the Option Offer.

In light of the recommendation of the Independent Board Committee as set out in Part V of this Scheme Document and the recommendation of the Gram Capital as set out in Part VI of this Scheme Document, Rule 2.3 of the Takeovers Code is not applicable.

As at the Latest Practicable Date, no person who owned or controlled Shares, Share Option(s) or convertible securities, warrants, options or derivatives in respect of Shares had irrevocably committed themselves to the Offeror to vote their Share in favour of or against the resolutions in respect of the Scheme at the Court Meeting or the EGM. Each of the Controlling Shareholder, Brilliant Lead and Alpha Top has undertaken that those Share held by them will be voted in favour of the resolutions to be proposed at the EGM.

Associates of the Offeror or the Company, including shareholders holding 5% or more of the relevant securities are hereby reminded to disclose their dealings in any securities of the Company under Rule 22 of the Takeovers Code.

23. SUMMARY OF ACTIONS TO BE TAKEN

Independent Shareholders and Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of the Company. Subsequent purchasers of Scheme Shares will need to obtain a proxy from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and the Shareholders are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 3:00 p.m.. (Hong Kong time) on Monday, 17 October 2016, and the **white** form of proxy for use at the EGM should be lodged not later than 3:20 p.m.. (Hong Kong time) on Monday, 17 October 2016. The completion and return of a form of proxy for the Court Meeting or the EGM will not preclude the Independent Shareholders and the Shareholders from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of such Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of Independent Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 14 October 2016 to Wednesday, 19 October 2016 (both days inclusive) and during such period, no transfer of the Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Hong Kong branch share registrar of the Company at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Thursday, 13 October 2016.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Grand Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

Actions to be Taken by Holders through trust or CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the

Court Meeting and the EGM set by them in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such person(s) if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or such other relevant person in advance of the latest time(s) for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

Petition hearing in the Grand Court

Prior to the despatch of this Scheme Document, the Company obtained directions from the Grand Court for the convening of the Court Meeting to consider the Scheme and other procedural matters regarding the Scheme.

In accordance with sections 14, 15 and 86 of the Companies Law, if the resolutions are approved at the Court Meeting and the EGM, the Company must then make a further application to the Grand Court to confirm the resolution reducing the share capital of the Company and to sanction the Scheme. The Company and the Offeror cannot complete the Scheme and the Proposal without obtaining these approvals. In this regard, the Company has filed a petition with the Grand Court seeking these approvals which will be heard on Thursday, 27 October 2016 (Cayman Islands time).

In determining whether to exercise its discretion and sanction the Scheme, the Grand Court will determine, among other things, whether the votes cast at the Court Meeting fairly represented the decision of the Scheme Shareholders.

If the Grand Court sanctions the Scheme and if all of the other conditions to the Scheme are satisfied or (to the extent allowed by law) waived, the Company intends to deliver the court order sanctioning the Scheme with the Registrar of Companies in the Cayman Islands on Monday, 31 October 2016 or as otherwise directed by the Grand Court for registration, at which time the order sanctioning the Scheme will become effective.

SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH SHARES THAT GIVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTES AT THE COURT MEETING) SHOULD NOTE THAT THEY WILL BE ENTITLED TO APPEAR AT THE GRAND COURT HEARING EXPECTED TO BE ON 27 OCTOBER 2016 (CAYMAN ISLANDS TIME) AT WHICH THE COMPANY WILL SEEK, AMONG OTHER THINGS, THE SANCTION OF THE SCHEME.

Optionholders

The Option Offer Letter is being sent to each Optionholder separately. Optionholders should refer to those letters, the form of which is set out in Appendix VI to this Scheme Document. Any holder of outstanding Share Option(s) as at the Option Offer Record Date who wishes to accept the Option Offer must complete and return the duly completed and executed Form of Acceptance by 4:00 p.m. on Monday, 14 November 2016 (or such later date and time as may be notified to the Optionholders by the Offeror or Huatai Financial), to the Offeror, at Units 1613 & 1615, 16th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong, for the attention of the board of directors of the Offeror and marked "Peak Sport Products Co., Limited – Option Offer". No acknowledgement of receipt of any Form of Acceptance or any other document will be given.

Optionholders should also note the instructions and other terms and conditions of the Option Offer printed on the Option Offer Letter and the Form of Acceptance.

24. RECOMMENDATIONS

Your attention is drawn to the following:

- (a) the letter from the Board set out in Part IV of this Scheme Document;
- (b) the letter from the Independent Board committee set out in Part V of this Scheme Document;
and
- (c) the letter from Gram Capital set out in Part VI of this Scheme Document.

25. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum.

Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, Huatai Financial or any of their respective affiliates has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

1. FINANCIAL INFORMATION OF THE GROUP

(a) Summary

The following is a summary of the consolidated financial information of the Group for the six months ended 30 June 2016 (unaudited) and the three years ended 31 December 2013, 2014 and 2015 (audited), details of which were extracted from the interim report of the Company for the six months ended the six months ended 30 June 2016 and the annual reports of the Company for each of the three years ended 31 December 2013, 2014 and 2015:

Consolidated Income Statement

	Year ended 31 December			Six months
	2013	2014	2015	ended 30
	(Audited)	(Audited)	(Audited)	June 2016
	RMB'000	RMB'000	RMB'000	(Unaudited)
				RMB'000
Revenue	2,612,892	2,841,378	3,107,478	1,298,066
Profit before tax	390,172	488,791	602,683	246,755
Income tax expense	145,892	168,139	210,422	77,333
Profit for the year				
attributable to shareholders				
of the Company	244,280	320,652	392,261	169,422
Earnings per Share				
attributable to ordinary				
equity holders of the				
Company (RMB in cents)				
Basic	11.64	15.28	17.56	7.09
Diluted	11.64	15.27	17.54	7.09
Dividends				
Interim dividend	33,387	66,795	157,204	–
Final dividend	99,955	132,898	139,161	–
Special dividend	133,481	–	–	–
Total dividends per Share				
<i>(HKD in cents)</i>	16	12	15	–

The auditor's reports issued by KPMG in respect of the Group's audited consolidated financial statements for each of the three years ended 31 December 2013, 2014 and 2015 did not contain any qualifications.

There were no exceptional items because of size, nature or incidence that were required to be disclosed in the financial statements of the Group for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

(b) Audited consolidated financial statements

Set out below are the consolidated financial statements of the Group for the financial year ended 31 December 2015 extracted from the annual report of the Company for the year ended 31 December 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

(Expressed in Renminbi)

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Revenue	3	3,107,478	2,841,398
Cost of sales		<u>(1,905,963)</u>	<u>(1,762,389)</u>
Gross profit		1,201,515	1,079,009
Other revenue	4	60,144	72,204
Other net (loss)/income	4	(8,063)	8,104
Selling and distribution expenses		(330,700)	(359,405)
Administrative expenses		<u>(294,401)</u>	<u>(291,487)</u>
Profit from operations		628,495	508,425
Finance expenses	5(a)	<u>(25,812)</u>	<u>(19,634)</u>
Profit before taxation	5	602,683	488,791
Income tax	6	<u>(210,422)</u>	<u>(168,139)</u>
Profit for the year attributable to shareholders of the Company		392,261	320,652
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside mainland China		<u>(16,750)</u>	<u>(2,923)</u>
Total comprehensive income for the year attributable to shareholders of the Company		<u>375,511</u>	<u>317,729</u>
Earnings per share (RMB cents)			
– Basic	10	17.56	15.28
– Diluted	10	<u>17.54</u>	<u>15.27</u>

Details of dividends proposed after the year end and paid during the year to shareholders of the Company are set out in note 9.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

(Expressed in Renminbi)

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	<i>11</i>	429,991	461,622
Construction in progress	<i>12</i>	44,332	44,783
Lease prepayments	<i>13</i>	172,590	176,330
Deposits and prepayments for purchase of non-current assets	<i>14</i>	37,481	37,364
Intangible assets	<i>15</i>	20,443	24,970
Deferred tax assets	<i>25(b)</i>	45,390	45,217
		<u>750,227</u>	<u>790,286</u>
Current assets			
Inventories	<i>16</i>	311,101	345,672
Trade and other receivables	<i>18</i>	1,059,447	986,582
Pledged deposits	<i>19</i>	396,137	502,072
Deposits at banks with original maturity over three months		1,400,000	1,400,000
Cash and cash equivalents	<i>20</i>	2,598,097	1,849,693
		<u>5,764,782</u>	<u>5,084,019</u>

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY**

		2015	2014
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities			
Trade and other payables	21	431,903	419,457
Bank loans	22	766,148	702,462
Current tax liabilities	25(a)	<u>77,404</u>	<u>68,361</u>
		<u>1,275,455</u>	<u>1,190,280</u>
Net current assets		<u>4,489,327</u>	<u>3,893,739</u>
Total assets less current liabilities		<u>5,239,554</u>	<u>4,684,025</u>
Non-current liabilities			
Bank loans	22	251,952	350,088
Deferred tax liabilities	25(b)	<u>101,918</u>	<u>87,360</u>
		<u>353,870</u>	<u>437,448</u>
Net assets		<u>4,885,684</u>	<u>4,246,577</u>
Equity			
Share capital	26	20,756	18,462
Reserves	27	<u>4,864,928</u>	<u>4,228,115</u>
Total equity		<u>4,885,684</u>	<u>4,246,577</u>

Approved and authorized for issue by the Board of Directors on 10 March 2016.

Xu Jingnan
Director

Xu Zhihua
Director

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

(Expressed in Renminbi)

		Share	Statutory	Other	Exchange	Share-based	Retained	Total
	Share capital	premium	reserve	reserve	reserve	payment	profits	equity
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'00	RMB'000
	(Note 26)	(Note 27(a))	(Note 27(b))	(Note 27(c))	(Note 27(d))	(Note 27(e))		
At 1 January 2014	18,460	530,796	352,207	81,354	11,863	14,576	3,112,509	4,121,765
Profit for the year	-	-	-	-	-	-	320,652	320,652
Other comprehensive income	-	-	-	-	(2,923)	-	-	(2,923)
Total comprehensive income for the year	-	-	-	-	(2,923)	-	320,652	317,729
Appropriation to statutory reserve	-	-	35,704	-	-	-	(35,704)	-
Shares issued under Share Option Scheme	2	628	-	-	-	(122)	-	508
Dividends	9	(200,069)	-	-	-	-	-	(200,069)
Equity-settled share-based payment	24	-	-	-	-	6,644	-	6,644
Transfer between reserves in respect of share options forfeited and cancelled	24	-	-	-	-	(10,580)	10,580	-
At 31 December 2014	18,462	331,355	387,911	81,354	8,940	10,518	3,408,037	4,246,577
Profit for the year	-	-	-	-	-	-	392,261	392,261
Other comprehensive income	-	-	-	-	(16,750)	-	-	(16,750)
Total comprehensive income for the year	-	-	-	-	(16,750)	-	392,261	375,511
Appropriation to statutory reserve	-	-	30,722	-	-	-	(30,722)	-
Shares issued under Top-up Placement	26	2,209	534,188	-	-	-	-	536,397
Shares issued under Share Option Scheme	85	19,193	-	-	-	(2,869)	-	16,409
Dividends	9	(290,102)	-	-	-	-	-	(290,102)
Equity-settled share-based payment	24	-	-	-	-	892	-	892
Transfer between reserves in respect of share options forfeited and cancelled	24	-	-	-	-	(3,295)	3,295	-
At 31 December 2015	20,756	594,634	418,633	81,354	(7,810)	5,246	3,772,871	4,885,684

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015

(Expressed in Renminbi)

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Operating activities			
Profit before taxation		602,683	488,791
Adjustments for:			
– Depreciation	<i>5(c)</i>	43,285	44,648
– Amortization of lease prepayments	<i>5(c)</i>	3,740	4,238
– Finance expenses	<i>5(a)</i>	25,812	19,634
– Interest income	<i>4</i>	(50,713)	(57,001)
– Net loss/(gain) on disposal of property, plant and equipment	<i>5(c)</i>	2,590	(39)
– Amortization of intangible assets	<i>5(c)</i>	5,219	906
– Net foreign exchange loss/(gain)		20,015	(2,819)
– Net loss of financial liabilities at fair value through profit or loss	<i>4</i>	5,770	–
– Equity-settled share-based payment expenses	<i>5(b)</i>	892	6,644
		<u>659,293</u>	<u>505,002</u>
Operating profit before changes in working capital		659,293	505,002
Decrease in inventories		34,245	20,109
(Increase)/decrease in trade and other receivables		(115,083)	39,915
Increase/(decrease) in trade and other payables		26,870	(5,048)
		<u>605,325</u>	<u>559,978</u>
Cash generated from operations		605,325	559,978
Income tax paid		(186,994)	(175,977)
		<u>418,331</u>	<u>384,001</u>
Net cash generated from operating activities		418,331	384,001

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Investing activities			
Payment for the purchase of property, plant and equipment		(15,935)	(22,038)
Proceeds from the sale of property, plant and equipment		124	559
Proceeds from the sale of lease prepayments		37,756	–
Payment for lease prepayments		(19,050)	–
Payment for the purchase of intangible assets		(809)	(2,768)
Interest received		56,407	44,889
Placement of deposits at banks with original maturity over three months		(3,600,000)	(3,400,000)
Withdrawal of deposits at banks with original maturity over three months		3,600,000	3,000,000
Placement of pledged deposits		(4,116,405)	(426,992)
Withdrawal of pledged deposits		<u>4,222,340</u>	<u>272,427</u>
Net cash generated from/(used in) investing activities		<u>164,428</u>	<u>(533,923)</u>
Financing activities			
Proceeds from new share issued under Top-up Placement	<i>26</i>	536,397	–
Proceeds from new share issued under Share Option Scheme	<i>26</i>	16,409	508
Proceeds from new bank loans		646,486	906,918
Repayment of bank loans		(738,352)	(620,601)
Advances from related parties	<i>30(d)</i>	31,896	–
Repayments to related parties	<i>30(d)</i>	(31,896)	–
Interest paid		(26,173)	(20,113)
Dividends paid to shareholders		<u>(290,100)</u>	<u>(200,069)</u>
Net cash generated from financing activities		<u>144,667</u>	<u>66,643</u>
Net increase/(decrease) in cash and cash equivalents		727,426	(83,279)
Cash and cash equivalents at 1 January		1,849,693	1,933,164
Effect of foreign exchange rate changes		<u>20,978</u>	<u>(192)</u>
Cash and cash equivalents at 31 December	<i>20</i>	<u><u>2,598,097</u></u>	<u><u>1,849,693</u></u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by International Accounting Standards Board (“IASB”). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company (see definitions below). Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of these financial statements

These financial statements for the year ended 31 December 2015 are consolidated financial statements comprising Peak Sport Products Co., Limited (the “Company”) and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of these financial statements is the historical cost basis, except for derivative financial instruments that are stated at their fair value as explained in the accounting policies set out below (see note 1(e)).

The functional currency of the Company is Hong Kong Dollars (“HK\$”). These financial statements are presented in Renminbi (“RMB”) as the functional currency of the Group’s main operating subsidiaries is RMB. These financial statements presented in RMB have been rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on these financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. Of these amendments, the following are relevant to the Group:

- *Annual Improvements to IFRSs 2010-2012 Cycle*
- *Annual Improvements to IFRSs 2011-2013 Cycle*

The Group has not adopted any new standard or Interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended IFRSs are set out below:

Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, IAS 24, Related party disclosures has been amended to expand the definition of a “related party” to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group’s related party disclosures as the Group does not obtain key management personnel services from management entities.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into these financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing these financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

In the Company-level statement of financial position (see note 31), an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)).

(e) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no more than 20 years after the date of completion.
- Plant and machinery 5 – 10 years
- Motor vehicles 5 years
- Furniture and fixtures 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Construction in progress

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see note 1(k)). The cost of self-constructed items of property, plant and equipment includes the cost of materials and direct labour. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(h) Lease prepayments

Lease prepayments represent the cost of land use rights paid to the People's Republic of China ("PRC") government authorities. Lease prepayments are carried at cost less accumulated amortization and impairment losses (see note 1(k)). Amortization of lease prepayments is charged to profit or loss on a straight-line basis over respective periods of the leases.

(i) Intangible assets

Intangible assets represent trademarks and software and are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see note 1(k)).

Software is amortized on the straight-line basis over its estimated useful life of five years. Both the useful life and method of amortization of software are reviewed annually.

Trademarks are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful lives of trademarks are indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for those trademarks. If they do not, the change in useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite useful lives.

Trademarks with finite useful lives are amortized on the straight-line basis over their estimated useful life of 5 years to 15 years.

(j) Operating lease charges

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

An operating lease is a lease which does not transfer substantially all the risks and rewards of ownership of an asset or assets held under the lease to the Group.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made.

(k) Impairment of assets**(i) Impairment of trade and other receivables**

Trade and other receivables that are stated at cost or amortized cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, market, economic, political or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognized as follows:

The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses recognized in respect of trade debtors and bills receivable are included within trade and other receivables, if recovery of such debts are considered doubtful but not remote. The impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts

previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- lease prepayments;
- deposits and prepayments for purchase of non-current assets;
- intangible assets; and
- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- *Recognition of impairment losses*

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(l) Inventories

Inventories are carried at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period when the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(m) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Bills receivable are derecognized if substantially all the risks and rewards of ownership of the bills receivable are transferred. If substantially all the risks and rewards of ownership of bills receivable are retained, the bills receivable are continued to recognize in the statement of financial position.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Trade and other payables

Trade and other payables are initially recognized at fair value and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Employee benefits***(i) Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Share-based payment*

The fair value of share options granted to eligible persons is recognized as an expense with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at the grant date using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options are granted.

Where the eligible persons have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest. During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expense qualify for recognition as an asset, with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based payment reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(r) **Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(s) Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, rebates, value added taxes and other sales taxes. Revenue is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer,

recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(ii) Interest income

Interest income is recognized as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognized as deferred income and subsequently recognized as revenue in profit or loss over the useful life of the asset.

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside mainland China are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in the exchange reserve in equity.

(v) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(w) Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete the development. The expenditure capitalized includes the costs of materials, direct labour, and an appropriate proportion of overheads. Capitalized development costs, if any, are stated at cost less accumulated amortization and impairment losses (see note 1(k)). Other development expenditure is recognized as an expense in the period in which it is incurred.

(x) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(y) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

- (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
- (a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (c) Both entities are joint ventures of the same third party.
 - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (f) The entity is controlled or jointly controlled by a person identified in (i).
 - (g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

No segment information is presented for the Group's business segment as the Group is principally engaged in a single line of business of manufacture and sale of sports products. The Group's all non-current assets are located in the PRC. The geographic analysis on the Group's revenue is set out in note 3.

2 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Set out below are the key sources of estimation uncertainty and critical accounting judgements adopted in preparing these financial statements:

(a) Impairments

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognized in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

(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 the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of each reporting period.

(c) Impairment of trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period.

(d) Depreciation and amortization

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets except for those with indefinite lives are amortized on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expenses to be recorded during any reporting period. The useful lives are based on the Group’s historical experience with similar assets and take into account anticipated technological changes. The depreciation and amortization expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

(e) Provision for deferred tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognized for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management’s judgement is required to assess the probability of future taxable profits. Management’s assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

3 REVENUE

The principal activities of the Group are manufacturing and distributing sports products, including footwear, apparel and accessories. Revenue represents the sales value of goods sold less returns, discounts, rebates, value added taxes and other sales taxes, and is analyzed as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Footwear	1,335,256	1,150,100
Apparel	1,703,021	1,633,240
Accessories	69,201	58,058
	<u>3,107,478</u>	<u>2,841,398</u>

None of the Group's customers (2014: one) had transactions with the Group, the amount of which exceeded 10% of the Group's aggregate revenue during the year ended 31 December 2015. Sales to the customer, which exceeded 10% of the Group's aggregate revenue during the year ended 31 December 2014, amounted to approximately RMB360,825,000.

The Group's revenue by geographical location is determined by the destinations to which the goods are delivered.

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
PRC (excluding Hong Kong, Macau and Taiwan)	2,434,810	2,188,781
Overseas	672,668	652,617
	<u>3,107,478</u>	<u>2,841,398</u>

The amount of the Group's revenue generated from each overseas country was not material during the year ended 31 December 2015 (2014: not material).

4 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Other revenue		
Interest income	50,713	57,001
Government grants	9,232	14,403
Others	199	800
	<u>60,144</u>	<u>72,204</u>

Government grants were received from local authorities for the Group's contributions to local communities and its achievement in export sales. The grants, which were unconditional, also included refunds of value added tax from local governments.

	2015 RMB'000	2014 RMB'000
Other net (loss)/income		
Net exchange (loss)/gain	(3,658)	7,993
Change in fair value of derivative financial instruments	(5,770)	–
Others	1,365	111
	<u>(8,063)</u>	<u>8,104</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2015 RMB'000	2014 RMB'000
(a) Finance expenses:		
Interest on bank borrowings	25,812	19,634
(b) Staff costs:		
Salaries, wages and other benefits	444,055	432,193
Contributions to defined contribution retirement plans	11,498	10,626
Equity-settled share-based payments (<i>note 24</i>)	892	6,644
	<u>456,445</u>	<u>449,463</u>
(c) Other items:		
Amortization		
– lease prepayments	3,740	4,238
– intangible assets	5,219	906
Depreciation	43,285	44,648
Operating lease charges in respect of leasing of properties	12,654	12,854
Net loss/(gain) on disposal of property, plant and equipment	2,590	(39)
Auditors' remuneration	3,525	3,511
Net impairment loss of trade and other receivables (<i>note 18(ii)</i>)	39,629	30,245
Research and development expenses*	63,477	63,562
Cost of inventories [#]	1,905,963	1,762,389

* Research and development expenses for the year ended 31 December 2015 includes RMB34,377,000 (2014: RMB32,773,000) relating to staff costs, depreciation and operating lease charges, which amount is also included in the respective total amounts disclosed separately in notes 5(b) and (c) for each of these types of expenses.

Cost of inventories for the year ended 31 December 2015 includes RMB338,031,000 (2014: RMB332,802,000) relating to staff costs, depreciation, amortization expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately in notes 5(b) and (c) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Current tax – PRC income tax		
Provision for the year	<u>196,037</u>	<u>179,413</u>
Deferred tax		
Origination and reversal of temporary differences	<u>14,385</u>	<u>(11,274)</u>
	<u><u>210,422</u></u>	<u><u>168,139</u></u>

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands or BVI.

No provision has been made for Hong Kong Profits Tax and United States Corporate Income Tax as the Group did not earn any profit that was subject to Hong Kong Profits Tax and United States Corporate Income Tax for the years ended 31 December 2015 and 2014.

Pursuant to the income tax rules and regulations of the PRC, provision for PRC Corporate Income Tax is calculated based on the statutory rate of 25% of the assessable profits of the subsidiaries incorporated in the PRC.

In addition, from 1 January 2008, a non-resident enterprise without an establishment or a place of business in the PRC or which has an establishment or a place of business in the PRC but whose relevant income is not effectively connected with the establishment or place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident may be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the “beneficial owner” and holds 25% or more of the equity interest of the PRC enterprise.

All of the Group’s subsidiaries incorporated in the PRC are foreign-invested enterprises directly and wholly owned by a Hong Kong incorporated subsidiary. The Directors have determined that in determining the amounts of dividends to be distributed from the undistributed profits of the Group’s PRC subsidiaries to the Hong Kong incorporated subsidiary in future, the amounts of dividends declared or to be declared by the Company would be considered. Accordingly, deferred tax liabilities have been provided for the undistributed profits of the Group’s PRC subsidiaries based on the expected dividends to be distributed from these subsidiaries in the foreseeable future and the expected withholding tax rate of 5%.

(b) Reconciliation between income tax and accounting profit at applicable tax rates:

	2015 RMB'000	2014 RMB'000
Profit before income tax	<u>602,683</u>	<u>488,791</u>
Notional tax on profit before income tax, calculated at the standard tax rates applicable to the respective tax jurisdictions	169,741	135,125
Tax effect of non-deductible expenses	26,123	25,597
Effect of withholding tax	<u>14,558</u>	<u>7,417</u>
Income tax	<u>210,422</u>	<u>168,139</u>

7 DIRECTORS' REMUNERATION

Details of directors' remuneration of the Company are set out below:

Year ended 31 December 2015

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit scheme RMB'000	Discretionary bonuses RMB'000	Equity-settled share-based payments RMB'000	Total RMB'000
Executive Directors						
Mr. Xu Jingnan	-	1,507	16	-	-	1,523
Mr. Xu Zhihua	-	1,107	16	500	-	1,623
Mr. Xu Zhida	-	1,007	16	500	-	1,523
Sub-total	-	3,621	48	1,000	-	4,669
Non-executive Director						
Ms. Wu Tigao	-	180	-	-	-	180
Independent Non-executive Directors						
Mr. Wang Mingquan	-	100	-	-	-	100
Dr. Xiang Bing	-	180	-	-	-	180
Dr. Ouyang Zhonghui	-	3	-	-	(30)	(27)
Mr. Feng Lisheng	-	97	-	-	-	97
Sub-total	-	380	-	-	(30)	350
Total	-	4,181	48	1,000	(30)	5,199

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Year ended 31 December 2014

	Fees <i>RMB'000</i>	Basic salaries, allowances and other benefits <i>RMB'000</i>	Contributions to retirement benefit scheme <i>RMB'000</i>	Discretionary bonuses <i>RMB'000</i>	Equity-settled share-based payments <i>RMB'000</i>	Total <i>RMB'000</i>
Executive Directors						
Mr. Xu Jingnan	-	1,507	16	-	-	1,523
Mr. Xu Zhihua	-	1,107	16	500	-	1,623
Mr. Xu Zhida	-	1,007	16	500	-	1,523
Sub-total	-	3,621	48	1,000	-	4,669
Non-executive Directors						
Ms. Wu Tigao	-	180	-	-	-	180
Mr. Shen Nanpeng	-	5	-	-	-	5
Mr. Zhu Linan	-	75	-	-	-	75
Sub-total	-	260	-	-	-	260
Independent Non-executive Directors						
Mr. Wang Mingquan	-	100	-	-	74	174
Dr. Xiang Bing	-	180	-	-	74	254
Dr. Ouyang Zhonghui	-	100	-	-	47	147
Sub-total	-	380	-	-	195	575
Total	-	4,261	48	1,000	195	5,504

Equity-settled share-based payments represent the estimated value of share options granted to the Directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(q) (ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of share options are forfeited prior to vesting. The details of these benefits in kind, including the principal terms and number of share options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 24.

During the year, no amount was paid or payable by the Company to the Directors or any of the five highest paid individuals set out in note 8 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8 INDIVIDUAL WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2014: three) are Directors whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the remaining two individuals for 2015 (2014: two) are as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Salaries and other emoluments	3,109	2,934
Discretionary bonus	165	158
Equity-settled share-based payments	–	294
Contributions to defined contribution retirement plans	14	13
	<u>3,288</u>	<u>3,399</u>

The emoluments of the two (2014: two) individuals with the highest emoluments fall within the following bands:

	2015 Number of individuals	2014 Number of individuals
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	<u>1</u>	<u>1</u>

9 DIVIDENDS**(a) Dividends attributable to shareholders of the Company in respect of the current year**

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Interim dividend declared and paid of HK8 cents per ordinary share (2014: HK4 cents per ordinary share)	157,204	66,795
Final dividend proposed after the end of the reporting period of HK7 cents per ordinary share (2014: HK8 cents per ordinary share)	<u>140,152</u>	<u>132,920</u>
	<u>297,356</u>	<u>199,715</u>

The final dividend proposed after the end of the reporting period have not been recognized as a liability at the end of the reporting period.

- (b) Dividends attributable to shareholders of the Company in respect of the previous financial year, approved and paid during the year

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK8 cents per ordinary share (2014: HK6 cents per ordinary share)	132,898	99,955
Special final dividend in respect of the previous financial year, approved and paid during the year (2014: HK2 cents per ordinary share)	—	33,319
	<u>132,898</u>	<u>133,274</u>

10 EARNINGS PER SHARE

- (a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit for the year attributable to shareholders of the Company of RMB392,261,000 (2014: RMB320,652,000) and the weighted average number of ordinary shares of 2,234,024,000 (2014: 2,098,152,000 shares) during the year.

Weighted average number of ordinary shares

	2015 <i>'000 shares</i>	2014 <i>'000 shares</i>
Issued ordinary shares at 1 January	2,098,359	2,098,029
Effect of Top-up Placement (<i>note 26(b)</i>)	128,333	—
Effect of share options exercised	<u>7,332</u>	<u>123</u>
Weighted average number of ordinary shares at 31 December	<u>2,234,024</u>	<u>2,098,152</u>

- (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of the Company of RMB392,261,000 (2014: RMB320,652,000) and the weighted average number of ordinary shares of 2,236,350,000 (2014: 2,100,029,000) after adjustment for the potential dilutive effect of the share options granted under the Company's Share Option Scheme (see note 24).

Weighted average number of ordinary shares (diluted)

	2015	2014
	'000 shares	'000 shares
Weighted average number of ordinary shares at 31 December	2,234,024	2,098,152
Effect of deemed issue of shares under the Company's Share Option Scheme (note 24)	<u>2,326</u>	<u>1,877</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>2,236,350</u></u>	<u><u>2,100,029</u></u>

11 PROPERTY, PLANT AND EQUIPMENT

	<i>Note</i>	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:						
At 1 January 2014		445,633	133,943	11,567	50,244	641,387
Additions		129	4,993	51	4,726	9,899
Transfer from construction in progress	12	16,102	1,169	–	–	17,271
Disposals		<u>–</u>	<u>(3,396)</u>	<u>(174)</u>	<u>(234)</u>	<u>(3,804)</u>
At 31 December 2014		461,864	136,709	11,444	54,736	664,753
Additions		157	9,515	338	2,167	12,177
Transfer from construction in progress	12	–	–	–	–	–
Disposals		<u>–</u>	<u>(607)</u>	<u>(538)</u>	<u>(1,196)</u>	<u>(2,341)</u>
At 31 December 2015		<u>462,021</u>	<u>145,617</u>	<u>11,244</u>	<u>55,707</u>	<u>674,589</u>
Accumulated depreciation:						
At 1 January 2014		71,305	54,869	5,726	29,867	161,767
Charge for the year		21,556	14,092	1,368	7,632	44,648
Written back on disposals		<u>–</u>	<u>(2,936)</u>	<u>(147)</u>	<u>(201)</u>	<u>(3,284)</u>
At 31 December 2014		92,861	66,025	6,947	37,298	203,131
Charge for the year		22,008	13,581	1,273	6,423	43,285
Written back on disposals		<u>–</u>	<u>(346)</u>	<u>(511)</u>	<u>(961)</u>	<u>(1,818)</u>
At 31 December 2015		<u>114,869</u>	<u>79,260</u>	<u>7,709</u>	<u>42,760</u>	<u>244,598</u>
Net book value:						
At 31 December 2015		<u>347,152</u>	<u>66,357</u>	<u>3,535</u>	<u>12,947</u>	<u>429,991</u>
At 31 December 2014		<u>369,003</u>	<u>70,684</u>	<u>4,497</u>	<u>17,438</u>	<u>461,622</u>

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At 31 December 2015, buildings with net book value of RMB90,793,000 (2014: RMB97,212,000) were pledged to secure the bills payable, derivative financial instruments and certain bank loans set out in notes 21 and 22.

12 CONSTRUCTION IN PROGRESS

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January		44,783	53,541
Additions		1,740	8,513
Transfer to property, plant and equipment	<i>11</i>	–	(17,271)
Disposal		(2,191)	–
At 31 December		<u>44,332</u>	<u>44,783</u>

13 LEASE PREPAYMENTS

		2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cost:			
At 1 January		185,778	210,141
Additions		–	14,139
Disposal		–	(38,502)
At 31 December		<u>185,778</u>	<u>185,778</u>
Accumulated amortization:			
At 1 January		9,448	5,956
Charge for the year		3,740	4,238
Written back on disposal		–	(746)
At 31 December		<u>13,188</u>	<u>9,448</u>
Net book value:			
At 31 December		<u>172,590</u>	<u>176,330</u>

Lease prepayments represent prepayments of premiums for land use rights to the PRC authorities. The Group is granted land use rights for periods ranging from 50 to 70 years and the relevant leasehold lands are located in the PRC.

At 31 December 2015, lease prepayments with net book value of RMB9,619,000 (2014: RMB9,848,000) were pledged to secure the bills payable, derivative financial instruments and certain bank loans set out in notes 21 and 22.

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FINANCIAL INFORMATION ON THE COMPANY
14 DEPOSITS AND PREPAYMENTS FOR PURCHASE OF NON-CURRENT ASSETS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Prepayments for acquisition of land use rights	29,648	29,648
Prepayments for acquisition of software	7,833	7,716
	<u>37,481</u>	<u>37,364</u>

15 INTANGIBLE ASSETS

	Trademarks <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At 1 January 2014	20,101	5,417	25,518
Additions	<u>1,729</u>	<u>723</u>	<u>2,452</u>
At 31 December 2014 and 1 January 2015	21,830	6,140	27,970
Additions	<u>4</u>	<u>688</u>	<u>692</u>
At 31 December 2015	----- 21,834	----- 6,828	----- 28,662
Accumulated amortization:			
At 1 January 2014	-	2,094	2,094
Charge for the year	<u>-</u>	<u>906</u>	<u>906</u>
At 31 December 2014 and 1 January 2015	-	3,000	3,000
Charge for the year	<u>4,352</u>	<u>867</u>	<u>5,219</u>
At 31 December 2015	----- 4,352	----- 3,867	----- 8,219
Net book value:			
At 31 December 2015	<u>17,482</u>	<u>2,961</u>	<u>20,443</u>
At 31 December 2014	<u>21,830</u>	<u>3,140</u>	<u>24,970</u>

The amortization of intangible assets for the year is included in the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

16 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	37,435	29,071
Work in progress	89,457	73,125
Finished goods	<u>184,209</u>	<u>243,476</u>
	<u><u>311,101</u></u>	<u><u>345,672</u></u>

(b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount of inventories sold	1,898,740	1,744,868
Write down of inventories	<u>7,223</u>	<u>17,521</u>
	<u><u>1,905,963</u></u>	<u><u>1,762,389</u></u>

17 INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Particulars of issued/ fully paid up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Peak Investment Management Co., Limited	BVI 17 January 2008	US\$1	100%	100%	–	Investment holding
Peak (Hong Kong) International Company Limited	Hong Kong 2 January 2003	HK\$96,800,010	100%	–	100%	Investment holding
Quanzhou Peak Shoes Co., Ltd.*	PRC 23 July 1994	RMB196,880,000	100%	–	100%	Manufacturing and trading of sports products
Fujian Quanzhou Peak Sports Products Co., Ltd.*	PRC 10 August 2004	US\$28,600,000	100%	–	100%	Manufacturing and trading of sports products
Peak (Jiangxi) Industry Co., Ltd.*	PRC 6 April 2006	US\$32,900,000	100%	–	100%	Manufacturing and trading of sports products
Peak (China) Limited Company*	PRC 29 January 2007	RMB280,000,000	100%	–	100%	Manufacturing and trading of sports products
Xiamen Peak Sports Goods Co., Ltd.*	PRC 8 January 2010	US\$25,300,000	100%	–	100%	Trading of sports products
Peak Sports Products USA, Inc.	US 7 July 2010	US\$2,000,000	100%	–	100%	Trading of sports products
Peak (Shandong) Industry Co., Ltd*	PRC 22 April 2011	RMB100,000,000	100%	–	100%	Manufacturing and trading of sports products

* These entities are wholly foreign owned enterprises incorporated in the PRC.

18 TRADE AND OTHER RECEIVABLES

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Bills receivable	5,960	9,850
Trade debtors	1,065,294	903,678
Less: allowance for doubtful debts	<u>(84,785)</u>	<u>(45,156)</u>
	986,469	868,372
Other receivables	<u>51,856</u>	<u>101,310</u>
Total receivables	1,038,325	969,682
Deposits and prepayments	<u>21,122</u>	<u>16,900</u>
	<u><u>1,059,447</u></u>	<u><u>986,582</u></u>

At 31 December 2015, the Group had endorsed bank acceptance bills totalling RMB520,473,000 (2014: RMB757,602,000), which were derecognized from financial assets. These bank acceptance bills matured within six months from the date of issue.

(i) Aging analysis

Set out below is an aging analysis of the total balance of the trade debtors and bills receivable (net of allowance for doubtful debts) at the end of the reporting period based on relevant invoice date (or date of revenue recognition, if earlier):

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	761,168	750,422
After 3 months but within 6 months	222,791	112,809
After 6 months but within 1 year	<u>2,510</u>	<u>5,141</u>
	<u><u>986,469</u></u>	<u><u>868,372</u></u>

The Group generally offers a revolving credit to each domestic distributor. This revolving credit sets a maximum amount that a distributor can owe the Group at any one time. Accordingly, as soon as the outstanding balance of a domestic distributor has exceeded such revolving credit, the portion of the debt exceeding the revolving credit is due for settlement.

In addition, the Group generally offers a credit period, the maximum of which normally does not exceed six months, to each overseas customer.

Further details of the Group's credit policies are set out in note 28(a).

(ii) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(k)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January	45,156	14,911
Impairment loss recognized	49,217	32,345
Reversal of provision for impairment	<u>(9,588)</u>	<u>(2,100)</u>
At 31 December	<u><u>84,785</u></u>	<u><u>45,156</u></u>

At 31 December 2015, the Group determined the impairment of trade debtors and bills receivable on both individual and collective bases. The Group's trade debtors of RMB91,195,000 (2014: RMB45,156,000) were individually determined to be impaired as a result. The individually impaired trade debtors related to customers that were in financial difficulties. Management considered that the recovery of such debtors was doubtful but not remote and only a portion of such receivables was expected to be recovered. Consequently, specific allowances for doubtful debts of RMB66,251,000 (2014: RMB45,156,000) were recognized.

(iii) Trade debtors and bills receivable that are not impaired

The aging analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Neither past due nor impaired	659,217	868,189
More than 1 month but within 3 months	<u>–</u>	<u>183</u>
	<u><u>659,217</u></u>	<u><u>868,372</u></u>

Trade debtors and bills receivable that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Except for several trade debtors that had been determined individually and fully provided for impairment loss in note 18(ii), none of the Group's trade debtors and bills receivable (2014: RMB183,000) were past due at 31 December 2015.

19 PLEDGED DEPOSITS

Bank deposits were pledged to secure the bills payable, derivative financial instruments and certain bank loans set out in notes 21 and 22.

20 CASH AND CASH EQUIVALENTS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cash at bank and on hand	<u><u>2,598,097</u></u>	<u><u>1,849,693</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY**

At 31 December 2015, the balances denominated in RMB that were placed with banks in the PRC and included in the Group's cash and cash equivalents amounted to RMB2,498,394,000 (2014: RMB1,766,455,000). Remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

21 TRADE AND OTHER PAYABLES

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Bills payable	23,610	50,660
Trade creditors	<u>170,080</u>	<u>103,424</u>
	193,690	154,084
Other payables and accruals	<u>227,653</u>	<u>242,344</u>
Financial liabilities measured at amortized cost	421,343	396,428
Derivative financial instruments (<i>note 28(g)</i>)	5,770	-
Advance received	<u>4,790</u>	<u>23,029</u>
	<u><u>431,903</u></u>	<u><u>419,457</u></u>

At 31 December 2015, bills payable were secured by pledged deposits of RMB4,742,000 (2014: RMB10,560,000), certain buildings and lease prepayments as set out in notes 11 and 13.

Set out below is an aging analysis of the trade creditors and bills payable (which are included in trade and other payables) at the end of the reporting period based on relevant invoice dates:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	142,178	89,313
After 3 months but within 6 months	45,784	60,309
After 6 months but within 1 year	<u>5,728</u>	<u>4,462</u>
	<u><u>193,690</u></u>	<u><u>154,084</u></u>

22 BANK LOANS

At 31 December 2015, bank loans were borrowed at variable interest rates, secured by pledged deposits of RMB373,808,000 (2014: RMB491,512,000), certain buildings and lease prepayments (see notes 11 and 13), and repayable as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	766,148	702,462
After 1 year but within 2 years	<u>251,952</u>	<u>350,088</u>
	<u><u>1,018,100</u></u>	<u><u>1,052,550</u></u>

23 EMPLOYEE RETIREMENT BENEFITS**Defined contribution retirement plans**

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organized by the PRC municipal government authorities in Fujian, Jiangxi and Shandong provinces whereby the Group is required to make contributions to the Schemes at the rates ranging from 18% to 20% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed in Hong Kong. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000 (HK\$25,000 prior to June 2014). Contributions to the plan vest immediately.

The Group does not have any material obligation for the payment of retirement benefits for its employees except for those schemes described above.

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the shareholders' resolutions passed on 8 September 2009 and 18 May 2011, the Company adopted a share option scheme ("the Share Option Scheme") whereby the Directors of the Company are authorized, at their discretion, to invite any persons (including directors, employees, suppliers, customers and other business partners) who have made valuable contribution to the Group to take up share options to subscribe for the shares of the Company.

Each share option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

- (a) The terms and conditions of various batches of share options granted under the Share Option Scheme that existed at any time during the year ended 31 December 2015 are as follows:

Date of grant	Batch number	Number of options granted	Vesting conditions	Contractual life of options
Options granted to directors:				
1 June 2010	Batch 4	180,000	1 year after the date of grant	5 years
1 June 2010	Batch 5	180,000	2 years after the date of grant	5 years
1 June 2010	Batch 6	240,000	3 years after the date of grant	5 years
1 January 2014	Batch 8	400,000	4 months after the date of grant	4.3 years
1 January 2014	Batch 9	60,000	1 year after the date of grant	5 years
1 January 2014	Batch 10	60,000	2 years after the date of grant	5 years
1 January 2014	Batch 11	80,000	3 years after the date of grant	5 years
Options granted to employees:				
9 February 2010	Batch 1	3,919,500	1 year after the date of grant	5 years
9 February 2010	Batch 2	3,919,500	2 years after the date of grant	5 years
9 February 2010	Batch 3	5,226,000	3 years after the date of grant	5 years
1 June 2010	Batch 4	639,000	1 year after the date of grant	5 years
1 June 2010	Batch 5	639,000	2 years after the date of grant	5 years
1 June 2010	Batch 6	852,000	3 years after the date of grant	5 years
1 January 2014	Batch 8	12,005,000	4 months after the date of grant	4.3 years
1 January 2014	Batch 9	2,736,000	1 year after the date of grant	5 years
1 January 2014	Batch 10	2,736,000	2 years after the date of grant	5 years
1 January 2014	Batch 11	3,648,000	3 years after the date of grant	5 years
Options granted to distributors:				
1 November 2013	Batch 7	<u>14,880,000</u>	Achieving 2013 payment targets	1.4 years
		<u>52,400,000</u>		

- (b) Details of the movements of the share options granted under the Share Option Scheme are as follows:

	Year ended 31 December 2015		Year ended 31 December 2014	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
Outstanding at the beginning of the year	HK\$2.0997	30,237	HK\$3.8390	18,299
Granted during the year	–	–	HK\$1.9380	21,725
Exercised during the year	HK\$1.9244	(10,761)	HK\$1.9380	(330)
Forfeited during the year	HK\$1.9380	(711)	HK\$3.3799	(962)
Cancelled	<u>HK\$3.1511</u>	<u>(4,152)</u>	<u>HK\$5.2940</u>	<u>(8,495)</u>
Outstanding at the end of the year	<u>HK\$1.9380</u>	<u>14,613</u>	<u>HK\$2.0997</u>	<u>30,237</u>
Exercisable at the end of the year	<u>HK\$1.9380</u>	<u>8,887</u>	<u>HK\$2.1671</u>	<u>21,347</u>

The weighted average share price at the dates of exercise for share options exercised during the year was HK\$2.46 (2014: HK\$2.22).

The share options outstanding as at 31 December 2015 had an exercise price of HK\$1.9380 (2014: HK\$5.1960, HK\$5.6040, HK\$1.9100 or HK\$1.9380) and a weighted average remaining contractual life of 2.7 years (2014: 2.6 years).

(c) **Fair value of share options and assumptions**

The fair value of services received in return for the share options granted is measured by reference to the fair value of the share options granted. Set out below are the estimate of such fair value and the related assumptions made at the grant dates based on the Black-Scholes-Merton Option Pricing Model:

	Batch 8	Batch 9	Batch 10	Batch 11
Fair value at measurement date (HK\$)	0.4657	0.4888	0.5155	0.5400
Share price (HK\$)	1.8890	1.8890	1.8890	1.8890
Exercise price (HK\$)	1.9380	1.9380	1.9380	1.9380
Expected volatility	48.87%	45.97%	45.46%	45.08%
Expected option life	2.3 years	3 years	3.5 years	4 years
Expected dividends	2.647%	2.647%	2.647%	2.647%
Risk-free rate	<u>0.425%</u>	<u>0.655%</u>	<u>0.824%</u>	<u>0.992%</u>

The contractual life of the share option is used as an input into the Black-Scholes-Merton Option Pricing Model. Expectations of early exercise are also incorporated into the model. The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service condition and non-market performance condition. These conditions were not taken account in the fair value measurements at the grant dates. There were no market conditions associated with the grants of the share options.

25 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) **Current tax liabilities in the consolidated statement of financial position represent:**

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Provision for PRC income tax	<u>77,404</u>	<u>68,361</u>

(b) Recognized deferred tax assets and liabilities

Recognized deferred tax assets/(liabilities) are attributable to the following:

	Provision of incentive rewards and subsidies <i>RMB'000</i>	Impairment losses for trade debtors <i>RMB'000</i>	Pre-operating expenses, accruals and others <i>RMB'000</i>	Withholding tax on dividends <i>RMB'000</i>	Total <i>RMB'000</i>
Deferred tax arising from:					
At 1 January 2014	5,723	3,728	17,076	(79,944)	(53,417)
Charged to profit or loss	<u>5,978</u>	<u>7,456</u>	<u>5,256</u>	<u>(7,416)</u>	<u>11,274</u>
At 31 December 2014	11,701	11,184	22,332	(87,360)	(42,143)
Charged to profit or loss	<u>(552)</u>	<u>9,901</u>	<u>(9,176)</u>	<u>(14,558)</u>	<u>(14,385)</u>
At 31 December 2015	<u>11,149</u>	<u>21,085</u>	<u>13,156</u>	<u>(101,918)</u>	<u>(56,528)</u>
			2015	2014	
			<i>RMB'000</i>	<i>RMB'000</i>	
Represented by:					
Deferred tax assets			45,390	45,217	
Deferred tax liabilities			<u>(101,918)</u>	<u>(87,360)</u>	
			<u>(56,528)</u>	<u>(42,143)</u>	

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in note 1(r), the Group has not recognized deferred tax assets of RMB109,077,000 (2014: RMB77,082,000) in respect of cumulative tax losses. Of these deferred tax assets not recognized, RMB10,233,000 (2014: RMB8,275,000) is related to tax losses which will expire within 20 years starting from the next year when the tax losses occurred under the current tax legislation. The cumulative tax losses have not been recognized as deferred tax assets as it is not probable that future taxable profits against which the losses can be utilized will be available in the relevant tax jurisdiction and entity.

(d) Deferred tax liabilities not recognized

At 31 December 2015, temporary differences relating to undistributed profits of subsidiaries amounted to RMB2,302,021,000 (2014: RMB2,055,924,000). Deferred tax liabilities of RMB115,101,000 (2014: RMB102,796,000) have not been recognized in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

26 SHARE CAPITAL

(a) Authorized

	31 December 2015 and 2014	
	No. of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.01 each	5,000,000	50,000

(b) Issued and fully paid

	2015			2014		
	No. of shares '000	Amount HK\$'000	RMB'000	No. of shares '000	Amount HK\$'000	RMB'000
Ordinary shares of HK\$0.01 each						
At 1 January	2,098,359	20,983	18,462	2,098,029	20,980	18,460
Shares issued under Top-up Placement	280,000	2,800	2,209	-	-	-
Shares issued under Share Option Scheme (note 24)	10,761	108	85	330	3	2
At 31 December	<u>2,389,120</u>	<u>23,891</u>	<u>20,756</u>	<u>2,098,359</u>	<u>20,983</u>	<u>18,462</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

On 23 June 2015, the Company, Ever Sound Development Limited (a controlling shareholder of the Company as defined under the Listing Rules), and placing agents entered into agreements of transactions (collectively "Top-up Placement") whereby: (i) the controlling shareholder sold 280,000,000 ordinary shares of the Company to places procured by the placing agents on 23 June 2015 at the price of HK\$2.48 per share; and (ii) the Company issued 280,000,000 new ordinary shares with a par value of HK\$0.01 each to the controlling shareholder at the same price of HK\$2.48 per share upon completion of the transaction mentioned in (i). The Top-up Placement was completed on 7 July 2015. The net proceeds from the Top-up Placement was RMB536,397,000 and accordingly the issued share capital and share premium of the Company were increased by RMB2,209,000 and RMB534,188,000 respectively upon completion of the Top-up Placement.

In 2015, share options were exercised to subscribe for 10,761,000 ordinary shares in the Company at a consideration of RMB16,409,000 of which RMB85,000 was credited to share capital and the balance of RMB16,324,000 was credited to the share premium account. RMB2,869,000 has been transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 1(q)(ii).

27 RESERVES

Details of the changes in the Company's individual components of reserves are set out below:

		Share	Other	Exchange	Share-based	Accumulated	Total
	Note	premium	reserve	reserve	payment	losses	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note a)	(Note c)	(Note d)	(Note e)		
At 1 January 2014		530,796	549,336	(170,960)	14,576	(50,687)	873,061
Total comprehensive income		-	-	4,480	-	(11,242)	(6,762)
Shares issued under Share Option Scheme	24	628	-	-	(122)	-	506
Equity-settled share-based payment	24	-	-	-	6,644	-	6,644
Dividends	9	(200,069)	-	-	-	-	(200,069)
Transfer between reserves in respect of share options forfeited and cancelled	24	-	-	-	(10,580)	10,580	-
At 31 December 2014	31	331,355	549,336	(166,480)	10,518	(51,349)	673,380
Total comprehensive income		-	-	65,665	-	(9,166)	56,499
Shares issued under Top-up Placement	26	534,188	-	-	-	-	534,188
Shares issued under Share Option Scheme	24	19,193	-	-	(2,869)	-	16,324
Equity-settled share-based payment	24	-	-	-	892	-	892
Dividends	9	(290,102)	-	-	-	-	(290,102)
Transfer between reserves in respect of share options forfeited and cancelled	24	-	-	-	(3,295)	3,295	-
At 31 December 2015	31	594,634	549,336	(100,815)	5,246	(57,220)	991,181

(a) Share premium

The application of the share premium of the Company is governed by the Companies Law (Revised) of the Cayman Islands. The share premium is distributable to the shareholders of the Company provided that immediately following the date on which a distribution or dividend is proposed to be paid, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Statutory reserve

Pursuant to applicable PRC regulations, the PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) to the statutory reserve until the reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to equity holders. The statutory reserve can be used upon approval by relevant authorities to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance of the reserve after such increase is not less than 25% of its registered capital.

(c) Other reserve

The other reserve of the Group represents the difference between the nominal value of the shares issued by the Company as a consideration to acquire Peak (Hong Kong) International Company Limited (“Peak Hong Kong”) and the historical carrying value of Peak Hong Kong’s share capital and share premium.

The other reserve of the Company represents the difference between the nominal value of the shares issued by the Company as a consideration to acquire Peak Hong Kong and the historical carrying value of net assets of Peak Hong Kong and its subsidiaries.

(d) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of operations outside mainland China.

(e) Share-based payment reserve

The share-based payment reserve represents the portion of the grant date fair value of unexercised share options granted to eligible person(s) of the Group that has been recognized in accordance with the accounting policy adopted for share-based payment in note 1(q)(ii).

(f) Distributable reserve

The distributable reserve of the Company as at 31 December 2015 was RMB991,181,000 (2014: RMB673,380,000).

(g) Capital management

The Group’s primary objectives when managing capital are to safeguard the Group’s ability to continue as a going concern so that it can continue to provide returns for its shareholders and benefits for other stakeholders by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, the Group defines adjusted net debt as interest-bearing loans less cash and bank deposits. Capital is defined as the total equity. As at 31 December 2015, the Group had cash and bank deposits in excess of interest-bearing loans. It is the management’s intention to restrict the ratio below 50% in the long run. To achieve this end, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares or raise new debts.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, currency, commodity price and business risks arise in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables.

Management has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

The Group offers a revolving credit to each domestic distributor. This revolving credit sets a maximum amount that a distributor can owe the Group at any one time. In determining the amount of a revolving credit for a distributor, the Group takes into account factors including the credit history, prior year's purchases, estimated purchases for the current year, and funding need to expand the retail network of the distributor, and market conditions. The Group generally evaluates the revolving credit of a domestic distributor annually upon renewal of relevant distribution agreement.

In addition, the Group generally offers a credit period to each overseas customer. This credit period, the maximum of which normally does not exceed six months, varies for different overseas customers depending on economic and political conditions of relevant countries, and the factors similar to those for determining the revolving credits for the domestic distributors mentioned above.

At the end of the reporting period, 13% (2014: 18%) and 23% (2014: 29%) of the total trade debtors and bills receivable were due from the Group's largest customer and the five largest customers respectively.

As set out in note 18, at 31 December 2015, the Group had endorsed bank acceptance bills totaling RMB520,473,000 (2014: RMB757,602,000), which were derecognized from financial assets. The transferees have recourse to the Group in case of default by the issuing banks. If such default has happened, the Group are required to repurchase these bank acceptance bills at face value. The Group's maximum loss in case of default is RMB520,473,000 for these endorsed bills. Nonetheless, the Group only endorses bank acceptance bills issued by major banks in the PRC and considers that the credit risk associated with such bank acceptance bills to be insignificant.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the head office when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and long terms.

Set out below are the details of the remaining contractual maturities of non-derivative financial liabilities and derivative financial liabilities of the Group at the end of the reporting period in contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current as at the end of the reporting period) and the earliest days that the Group can be required to pay:

	Contractual undiscounted cash inflows/(outflows)			Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total RMB'000	
At 31 December 2015				
Current liabilities				
Bank loans	(771,355)	–	(771,355)	(766,148)
Trade and other payables	(421,343)	–	(421,343)	(421,343)
Non-current liabilities				
Bank loans	(5,869)	(253,769)	(259,638)	(251,952)
	<u>(1,198,567)</u>	<u>(253,769)</u>	<u>(1,452,336)</u>	<u>(1,439,443)</u>
Foreign exchange derivatives settled gross				
– outflow	(267,840)	–	(267,840)	
– inflow	<u>262,275</u>	<u>–</u>	<u>262,275</u>	
At 31 December 2014				
Current liabilities				
Bank loans	(710,449)	–	(710,449)	(702,462)
Trade and other payables	(419,457)	–	(419,457)	(419,457)
Non-current liabilities				
Bank loans	(8,682)	(353,174)	(361,856)	(350,088)
	<u>(1,138,588)</u>	<u>(353,174)</u>	<u>(1,491,762)</u>	<u>(1,472,007)</u>

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from bank loans. Bank loans borrowed at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. All of the Group's bank loans were borrowed at variable rates. During the year ended 31 December 2015, the effective interest rates of the bank loans of the Group were 2.29% per annum (2014: 2.06%).

Sensitivity analysis

The following interest rate sensitivity analysis for the Group's bank loans has been determined assuming that a change in interest rates had occurred at the end of the reporting period. The impact on the Group's after-tax profit is estimated as an annualized impact on interest expenses of such a change in interest rates. The analysis is performed on the same basis for 2014.

A general increase of 100 basis points (i.e. 1%) in interest rates, with all other variables held constant, would have decreased the Group's after-tax profit by an amount as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
100 basis point increase	<u>(10,181)</u>	<u>(10,526)</u>

A general decrease of 100 basis points in interest rates would have had the equal but opposite effect on the after-tax profit by the amount shown above, with all other variables held constant.

(d) Currency risk

The Group is exposed to foreign currency risk primarily through bank deposits, bank loans, proceeds from export sales and settlement of accounts of overseas service providers that are denominated in currencies other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars and Hong Kong Dollars.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies			
	(expressed in Renminbi)			
	2015		2014	
	Hong Kong	United States	Hong Kong	United States
	Dollars	Dollars	Dollars	Dollars
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and other receivables	323	381,099	220	133,928
Cash and cash equivalents	39,889	54,528	1,518	79,188
Pledged deposits	–	194,808	–	156,402
Bank loans	(251,920)	(766,180)	(118,607)	(933,943)
Trade and other payables	<u>(360)</u>	<u>(18,417)</u>	<u>(219)</u>	<u>(20,901)</u>
Gross exposure arising from recognized assets and liabilities	(212,068)	(154,162)	(117,088)	(585,326)
Notional amounts of foreign exchange derivative instruments	<u>–</u>	<u>(196,756)</u>	<u>–</u>	<u>–</u>
Net exposure arising from recognized assets and liabilities	<u>(212,068)</u>	<u>(350,918)</u>	<u>(117,088)</u>	<u>(585,326)</u>

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2015		2014	
	Increase/ (decrease) in foreign exchange rates in %	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates in %	Effect on profit after tax and retained profits RMB'000
Hong Kong Dollars	5	(10,603)	5	(5,854)
	(5)	10,603	(5)	5,854
United States Dollars	5	(21,454)	5	(31,683)
	(5)	21,454	(5)	31,683

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside mainland China into the Group's presentation currency. The analysis is performed on the same basis for 2014.

(e) Commodity price risk

The major raw materials used in the production of the Group's products include cotton, polyester and rubber. The Group is exposed to price fluctuations of these raw materials which are influenced by global as well as regional supply and demand conditions. Price fluctuations of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(f) Business risk

The Group's primary business is the design, manufacture and distribution of branded sports products including footwear, apparel and related accessories. The Group's financial results are influenced by the rapidity of its designs to be copied by competitors and reproduced at much lower prices, as well as by the Group's ability to continue to create new designs that appeal to consumers, maintain an extensive distribution network, manufacture sufficient quantities to meet customer demand, and dispose of excess inventories without excessive losses. Based on these factors, the Group may experience significant fluctuations in its future financial results.

(g) Fair values measurement

The carrying amounts of the Group's financial instruments, which are carried at cost or amortised cost, are not materially different from their fair values as at 31 December 2014 and 2015.

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs (i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date).
- Level 2 valuations: Fair value measured using Level 2 inputs (i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs). Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 December 2015 RMB'000	Fair value measurements categorised to		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instruments:				
– Foreign exchange forward contracts	1,181	–	1,181	–
– Foreign exchange rate swaps	4,041	–	4,041	–
– Foreign exchange rate options	548	–	548	–

	Fair value at 31 December 2014 RMB'000	Fair value measurements categorised to		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instruments:				
– Foreign exchange forward contracts	–	–	–	–
– Foreign exchange rate swaps	–	–	–	–
– Foreign exchange rate options	–	–	–	–

During the years ended 31 December 2014 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of foreign exchange forward contracts and foreign exchange rate swaps in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from relevant government yield curve as at the end of the reporting period and an adequate constant credit spread.

The fair value of foreign exchange rate options in Level 2 is measured by the Black-Scholes Model. Main parameters used in the Black-Scholes Model include the spot price of the foreign exchange rate as of the valuation date, strike rates, forward foreign exchange rates, implied volatilities of foreign exchange rate and the risk-free rates.

29 COMMITMENTS

- (a) **Capital commitments outstanding at 31 December 2015 not provided for in the financial statements were as follows:**

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	11,354	12,501
Authorized but not contracted for	494	541
	<u>11,848</u>	<u>13,042</u>

- (b) **The total future minimum lease payments under non-cancellable operating leases at the end of the reporting period were payable as follows:**

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	11,615	6,105
After 1 year but within 5 years	26,188	10,730
After 5 years	1,912	-
	<u>39,715</u>	<u>16,835</u>

The Group leased a number of properties under operating leases. The lease periods range from one to more than ten years. Some of the leases have options to renew upon expiry. None of the leases include contingent rentals.

30 MATERIAL RELATED PARTY TRANSACTIONS**(a) Key management personnel compensation**

Remuneration for key management personnel of the Group, including amounts paid to the Company's Directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	8,998	8,894
Equity-settled share-based payments	(30)	929
Contributions to defined contribution retirement plans	71	69
	<u>9,039</u>	<u>9,892</u>

The above remuneration is included in "staff costs" (note 5(b)).

(b) Lease of land and properties

During the year ended 31 December 2015, the Group leased certain land and properties from Fujian Peak Group Co., Ltd, which is controlled by Xu's family (as defined in note 32). The rental expenses for the year ended 31 December 2015 amounted to RMB2,259,000 (2014: RMB2,259,000).

The Directors of the Company are of the opinion that the above related party transaction was conducted on normal commercial terms and in the ordinary course of business.

(c) Top-up Placement

On 23 June 2015, the Company, Ever Sound Development Limited (a controlling shareholder of the Company as defined under the Listing Rules), and placing agents entered into the Top-up Placement whereby: (i) the controlling shareholder sold 280,000,000 ordinary shares of the Company to placees procured by the placing agents on 23 June 2015 at the price of HK\$2.48 per share; and (ii) the Company issued 280,000,000 new ordinary shares to the controlling shareholder at the same price of HK\$2.48 per share upon completion of the transaction mentioned in (i). The Top-up Placement was completed on 7 July 2015. The financial impact of the Top-up Placement is set out in note 26(b).

(d) Transactions and balances with related parties

During the year ended 31 December 2015, the Group obtained advances of total amount of RMB31,896,000 from an entity controlled by the three executive directors of the Company with a maximum outstanding balance of RMB12,279,000. The advances were unsecured and interest free. The Group repaid all such advances to the entity before 31 December 2015.

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions mentioned in notes 30(a) to 30(d) above constitute connected transaction as defined in Chapter 14A of the Listing Rules. However, the transactions are exempt from relevant disclosure requirements under Rules 14A.95, 14A.76(1), 14A.92(4) and 14A.90 of the Listing Rules.

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY
31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current assets			
Investments in subsidiaries	17	558,600	525,086
Current assets			
Other receivables		700,329	401,277
Cash and cash equivalents		4,382	755
		704,711	402,032
Current liabilities			
Other payables		69,552	63,943
Bank loans		181,822	171,333
		251,374	235,276
Net current assets		453,337	166,756
Net assets		1,011,937	691,842
Equity			
Share capital	26	20,756	18,462
Reserves	27	991,181	673,380
Total equity		1,011,937	691,842

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

The Directors consider that the immediate holding companies of the Company as at 31 December 2015 are the three entities incorporated in BVI and controlled by Mr. Xu Jingnan, Mr. Xu Zhihua, Mr. Xu Zhida and Ms. Wu Tigao (the “Xu’s family”). Accordingly, the ultimate controlling party of the Company as at 31 December 2015 is the Xu’s family. These three BVI entities do not provide financial statements for public use.

33 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the Directors proposed a final dividend which is disclosed in note 9(a).

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IAS 1, <i>Disclosure initiative</i>	1 January 2016
Amendments to IAS 16 and IAS 38, <i>Clarification of acceptable methods of depreciation and amortization</i>	1 January 2016
IFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
IFRS 9, <i>Financial instruments</i>	1 January 2018
IFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in a material impact on the Group's results of operations and financial position.

(c) Unaudited financial information for the six months ended 30 June 2016

Set out below is the unaudited financial information of the Group for the six months ended 30 June 2016 extracted from the interim report of the Company for the six months ended 30 June 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2016 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2016	2015
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	1,298,066	1,380,388
Cost of sales		<u>(804,084)</u>	<u>(857,336)</u>
Gross profit		493,982	523,052
Other revenue	5	38,630	37,791
Other net (loss)/income	5	(18,080)	2,233
Selling and distribution expenses		(133,921)	(153,970)
Administrative expenses		<u>(124,283)</u>	<u>(127,726)</u>
Profit from operations		256,328	281,380
Finance expenses	6(a)	<u>(9,573)</u>	<u>(13,112)</u>
Profit before taxation	6	246,755	268,268
Income tax	7	<u>(77,333)</u>	<u>(92,279)</u>
Profit for the period attributable to shareholders of the Company		169,422	175,989
Other comprehensive income for the period:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside mainland China		<u>(9,729)</u>	<u>289</u>
Total comprehensive income for the period attributable to shareholders of the Company		<u>159,693</u>	<u>176,278</u>
Earnings per share (RMB cents)			
– Basic	9	7.09	8.37
– Diluted	9	<u>7.09</u>	<u>8.36</u>

Details of dividends declared after the period end and paid during the period to shareholders of the Company are set out in note 8.

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2016 – unaudited

(Expressed in Renminbi)

	<i>Note</i>	30 June 2016 <i>RMB'000</i>	31 December 2015 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	<i>10</i>	414,721	429,991
Construction in progress	<i>11</i>	45,360	44,332
Lease prepayments	<i>12</i>	170,720	172,590
Deposits and prepayments for purchase of non-current assets	<i>13</i>	37,705	37,481
Intangible assets	<i>14</i>	19,658	20,443
Deferred tax assets	<i>23(b)</i>	43,355	45,390
		<u>731,519</u>	<u>750,227</u>
Current assets			
Inventories	<i>15</i>	472,364	311,101
Trade and other receivables	<i>16</i>	1,191,199	1,059,447
Available-for-sale financial asset	<i>17</i>	50,000	–
Pledged deposits	<i>18</i>	442,571	396,137
Deposits at banks with original maturity over three months		1,696,835	1,400,000
Cash and cash equivalents	<i>19</i>	1,993,336	2,598,097
		<u>5,846,305</u>	<u>5,764,782</u>
Current liabilities			
Trade and other payables	<i>20</i>	470,615	431,903
Bank loans	<i>21</i>	1,029,042	766,148
Current tax liabilities	<i>23(a)</i>	75,556	77,404
		<u>1,575,213</u>	<u>1,275,455</u>
Net current assets		<u>4,271,092</u>	<u>4,489,327</u>
Total assets less current liabilities		<u>5,002,611</u>	<u>5,239,554</u>
Non-current liabilities			
Bank loans	<i>21</i>	–	251,952
Deferred tax liabilities	<i>23(b)</i>	96,119	101,918
		<u>96,119</u>	<u>353,870</u>
Net assets		<u>4,906,492</u>	<u>4,885,684</u>
Equity			
Share capital	<i>24</i>	20,756	20,756
Reserves	<i>25</i>	4,885,736	4,864,928
Total equity		<u>4,906,492</u>	<u>4,885,684</u>

Approved and authorized for issue by the Board of Directors on 29 August 2016.

Xu Jingnan
Director

Xu Zhihua
Director

APPENDIX I
FINANCIAL INFORMATION ON THE COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2016 – unaudited

(Expressed in Renminbi)

		Share	Statutory	Other	Exchange	Share-based	Retained	Total equity
	Share capital	premium	reserve	reserve	reserve	payment	profits	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Note	(Note 24)	(Note 25(a))	(Note 25(b))	(Note 25(c))	(Note 25(d))	(Note 25(e))		
At 1 January 2015	18,462	331,355	387,911	81,354	8,940	10,518	3,408,037	4,246,577
Profit for the period	-	-	-	-	-	-	175,989	175,989
Other comprehensive income	-	-	-	-	289	-	-	289
Total comprehensive income for the period	-	-	-	-	289	-	175,989	176,278
Share issued under share option scheme	22	83	18,696	-	-	(2,772)	-	16,007
Dividends	8(b)	-	(132,898)	-	-	-	-	(132,898)
Equity-settled share-based payment	22	-	-	-	-	397	-	397
Transfer between reserves in respect of share options forfeited and cancelled	22	-	-	-	-	(2,215)	2,215	-
At 30 June 2015	<u>18,545</u>	<u>217,153</u>	<u>387,911</u>	<u>81,354</u>	<u>9,229</u>	<u>5,928</u>	<u>3,586,241</u>	<u>4,306,361</u>
At 1 January 2016	20,756	594,634	418,633	81,354	(7,810)	5,246	3,772,871	4,885,684
Profit for the period	-	-	-	-	-	-	169,422	169,422
Other comprehensive income	-	-	-	-	(9,729)	-	-	(9,729)
Total comprehensive income for the period	-	-	-	-	(9,729)	-	169,422	159,693
Share issued under share option scheme	22	- ⁺	60	-	-	(13)	-	47
Dividends	8(b)	-	(139,161)	-	-	-	-	(139,161)
Equity-settled share-based payment	22	-	-	-	-	229	-	229
Transfer between reserves in respect of share options forfeited and cancelled	22	-	-	-	-	(426)	426	-
At 30 June 2016	<u>20,756</u>	<u>455,533</u>	<u>418,633</u>	<u>81,354</u>	<u>(17,539)</u>	<u>5,036</u>	<u>(3,942,719)</u>	<u>4,906,492</u>

⁺ Less than RMB1 thousand

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2016 – unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from operations		9,397	361,888
Income tax paid		(82,945)	(69,746)
Net cash (used in)/generated from operating activities		(73,548)	292,142
Investing activities			
Placement of pledged deposits		(904,670)	(107,828)
Withdrawal of pledged deposits		858,236	100,426
Receipt of interest income		23,679	24,389
Purchase of available-for-sale financial asset		(50,000)	–
Cash flows (used in)/derived from other investing activities		(303,405)	12,233
Net cash (used in)/generated from investing activities		(376,160)	29,220
Financing activities			
Proceeds from new bank loans		290,424	450,994
Repayment of bank loans		(298,466)	(290,458)
Dividends paid to shareholders of the Company		(139,157)	(132,895)
Payment of interest expenses		(9,213)	(13,058)
Advances from related parties	28(d)	24,533	–
Repayments to related parties	28(d)	(24,533)	–
Cash flows derived from other financing activities		47	16,007
Net cash (used in)/generated from financing activities		(156,365)	30,590
Net (decrease)/increase in cash and cash equivalents		(606,073)	351,952
Cash and cash equivalents at 1 January	19	2,598,097	1,849,693
Effect of foreign exchange rate changes		1,312	(7)
Cash and cash equivalents at 30 June	19	1,993,336	2,201,638

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, issued by the International Accounting Standard Board (“IASB”). This interim financial report was authorized for issue on 29 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Peak Sport Products Co., Limited (the “Company”) and its subsidiaries (collectively refer to as the “Group”) since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company.

The financial information relating to the year ended 31 December 2015 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company’s registered office. The Company’s auditor has expressed an unqualified opinion on those financial statements in its report dated 10 March 2016.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to International Financial Reporting Standards (“IFRSs”) that are first effective for the current accounting period of the Group and are relevant to the Group’s interim financial report:

- *Annual improvements to IFRSs 2012-2014 cycle*
- *Amendments to IAS 1, Presentation of financial statements: Disclosure initiative*
- *Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortization*

None of these amendments have had a material effect on how the Group’s results and financial position for current or prior periods have been prepared or presented. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group’s most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group’s various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

No segment information is presented for the Group's business segment as the Group is principally engaged in a single line of business of manufacture and sale of sports products. All non-current assets of the Group are located in the People's Republic of China ("PRC"). The geographic analysis on the Group's revenue is set out in note 4.

4 REVENUE

The principal activities of the Group are manufacturing and distributing sports products, including footwear, apparel and accessories. Revenue represents the sales value of goods sold less returns, discounts, rebates, value added taxes and other sales taxes, and is analyzed as follows:

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Footwear	492,446	597,626
Apparel	791,736	755,574
Accessories	13,884	27,188
	<u>1,298,066</u>	<u>1,380,388</u>

The Group's customer base was diversified and one customer (six months ended 30 June 2015: nil) had transactions with the Group exceeding 10% of the Group's aggregate revenue during the six months ended 30 June 2016. Sales to the customer during the six months ended 30 June 2016 amounted to approximately RMB134,787,000.

The Group's revenue by geographical location is determined by the destination to which the goods are delivered.

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
PRC (excluding Hong Kong, Macau and Taiwan)	1,001,938	1,117,074
Overseas	296,128	263,314
	<u>1,298,066</u>	<u>1,380,388</u>

5 OTHER REVENUE AND OTHER NET (LOSS)/INCOME

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Other revenue		
Interest income	34,448	31,678
Government grants	3,967	5,911
Others	215	202
	<u>38,630</u>	<u>37,791</u>

Government grants were received from local authorities for the Group's contributions to local communities and its achievement in export sales. The grants, which were unconditional, also included refunds of value added tax from local governments.

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Other net (loss)/income		
Net exchange (loss)/gain	(12,539)	1,384
Net realized and unrealized loss on derivative financial instruments	(5,759)	-
Others	218	849
	<u>(18,080)</u>	<u>2,233</u>

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
(a) Finance expenses:		
Interest on bank borrowings	9,573	13,112
(b) Staff costs:		
Salaries, wages and other benefits	181,733	207,801
Contributions to defined contribution retirement plans	5,734	5,548
Equity-settled share-based payments (note 22)	229	398
	<u>187,696</u>	<u>213,747</u>
(c) Other items:		
Amortization:		
– lease prepayments	1,870	1,870
– intangible assets	946	4,217
Depreciation	21,309	21,649
Net impairment losses recognized/(reversed) for trade receivables (note 16(b))	6,691	(94)
Research and development expenses*	38,349	30,725
	<u>38,349</u>	<u>30,725</u>

* Research and development expenses for the six months ended 30 June 2016 includes RMB13,253,000 (six months ended 30 June 2015: RMB17,275,000) relating to staff costs and depreciation, which amount is included in the respective total amounts disclosed separately in notes 6(b) and (c) above for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax – PRC income tax		
Provision for the period	81,097	71,522
Deferred taxation		
Reversal and origination of temporary differences	(3,764)	20,757
	<u>77,333</u>	<u>92,279</u>

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands or BVI.

No provision has been made for Hong Kong Profits Tax and United States Corporate Income Tax as the Group did not earn any profit that was subject to Hong Kong Profits Tax and United States Corporate Income Tax respectively for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on the statutory tax rate of 25% of the assessable profits of all the Company's subsidiaries incorporated in the PRC.

In addition, from 1 January 2008, a non-resident enterprise without an establishment or a place of business in the PRC or which has an establishment or a place of business in the PRC but whose relevant income is not effectively connected with the establishment or place of business in the PRC, will be subject to a withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident may be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise.

All of the Group's subsidiaries incorporated in the PRC are foreign-invested enterprises directly and wholly owned by a Hong Kong incorporated subsidiary. The Directors have determined that in determining the amounts of dividends to be distributed from the undistributed profits of the Group's PRC subsidiaries to the Hong Kong incorporated subsidiary in future, the amounts of dividends declared or to be declared by the Company would be considered. Accordingly, the deferred tax liabilities have been provided for the undistributed profits of the Group's PRC subsidiaries based on the expected dividends to be distributed from these subsidiaries in the foreseeable future and the expected withholding tax rate of 5%.

8 DIVIDENDS

(a) Dividends attributable to shareholders of the Company in respect of the interim period

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
No interim dividend declared after the interim period (2015: HK\$8 cents per ordinary share)	—	150,789
	<u> </u>	<u> </u>

The interim dividend declared after the end of reporting period has not been recognized as a liability at the end of the reporting period.

(b) Dividends attributable to shareholders of the Company in respect of the previous financial year, approved and paid during the period

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the period, of HK7 cents per ordinary share (2015: HK8 cents per ordinary share)	139,161	132,898
	<u> </u>	<u> </u>

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculations of the basic earnings per share is based on the profit attributable to shareholders of the Company of RMB169,422,000 (six months ended 30 June 2015: RMB175,989,000) and the weighted average number of issued ordinary shares of 2,389,133,000 (six months ended 30 June 2015: 2,102,483,000 shares) during the interim period.

Weighted average number of ordinary shares

	Six months ended 30 June	
	2016	2015
	<i>'000 shares</i>	<i>'000 shares</i>
Issued ordinary shares at 1 January	2,389,120	2,098,359
Effect of share options exercised	<u>13</u>	<u>4,124</u>
Weighted average number of ordinary shares at 30 June	<u><u>2,389,133</u></u>	<u><u>2,102,483</u></u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of the Company of RMB169,422,000 (six months ended 30 June 2015: RMB175,989,000) and the weighted average number of ordinary shares of 2,389,459,000 (six months ended 30 June 2015: 2,105,977,000) after adjustment for the potential dilutive effect caused by the share options granted under the Company's share option scheme (see note 22).

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2016	2015
	<i>'000 shares</i>	<i>'000 shares</i>
Weighted average number of ordinary shares	2,389,133	2,102,483
Effect of deemed issue of shares under the Company's share option scheme	<u>326</u>	<u>3,494</u>
Weighted average number of ordinary shares (diluted)	<u><u>2,389,459</u></u>	<u><u>2,105,977</u></u>

10 PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Net book value as at 1 January	429,991	461,622
Additions	6,229	12,177
Disposals (net carrying amount)	(190)	(523)
Depreciation charge for the period/year	<u>(21,309)</u>	<u>(43,285)</u>
Net book value as at 30 June/31 December	<u><u>414,721</u></u>	<u><u>429,991</u></u>

As at 30 June 2016, buildings with net book values of RMB87,582,000 (31 December 2015: RMB90,793,000) were pledged to secure the bills payable and certain bank loans as set out in note 20 and 21, respectively.

11 CONSTRUCTION IN PROGRESS

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January	44,332	44,783
Additions	1,028	1,740
Disposal	—	(2,191)
	<u>45,360</u>	<u>44,332</u>
As at 30 June/31 December	<u><u>45,360</u></u>	<u><u>44,332</u></u>

12 LEASE PREPAYMENTS

Lease prepayments represent prepayments of premiums for land use rights to the PRC authorities. The Group is granted land use rights for periods ranging from 50 to 70 years and the relevant leasehold lands are located in the PRC.

As at 30 June 2016, lease prepayments with net book values of RMB9,504,000 (31 December 2015: RMB9,619,000) were pledged to secure bills payable and certain bank loans as set out in note 20 and 21, respectively.

13 DEPOSITS AND PREPAYMENTS FOR PURCHASE OF NON-CURRENT ASSETS

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments for acquisition of land use rights	29,648	29,648
Prepayments for acquisition of software	8,057	7,833
	<u>37,705</u>	<u>37,481</u>

14 INTANGIBLE ASSETS

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Net book value as at 1 January	20,443	24,970
Additions	161	692
Amortization for the period/year	(946)	(5,219)
	<u>19,658</u>	<u>20,443</u>
Net book value as at 30 June/31 December	<u><u>19,658</u></u>	<u><u>20,443</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY****15 INVENTORIES**

(a) Inventories in the consolidated statement of financial position comprise:

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	45,427	37,435
Work in progress	100,325	89,457
Finished goods	<u>326,612</u>	<u>184,209</u>
	<u>472,364</u>	<u>311,101</u>

(b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount of inventories sold	798,744	854,747
Write down of inventories	<u>5,340</u>	<u>2,589</u>
	<u>804,084</u>	<u>857,336</u>

16 TRADE AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Bills receivable	5,250	5,960
Trade debtors	1,123,962	1,065,294
Less: allowance for doubtful debts	<u>(91,476)</u>	<u>(84,785)</u>
	1,037,736	986,469
Other receivables	<u>59,662</u>	<u>51,856</u>
Total receivables	1,097,398	1,038,325
Deposits and prepayments	<u>93,801</u>	<u>21,122</u>
	<u>1,191,199</u>	<u>1,059,447</u>

As at 30 June 2016, the Group had endorsed bank acceptance bills totalling RMB480,100,000 (31 December 2015: RMB520,473,000), which were derecognised as financial assets. These bank acceptance bills matured within six months from the date of issue.

(a) Ageing analysis

Set out below is an ageing analysis of the total balance of the trade debtors and bills receivable (net of allowance for doubtful debts) at the end of the reporting period based on relevant invoice dates (or date of revenue recognition, if earlier):

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	689,503	761,168
After 3 months but within 6 months	323,739	222,791
After 6 months but within 1 year	24,494	2,510
	<u>1,037,736</u>	<u>986,469</u>

The Group generally offers a revolving credit to each domestic distributor. This revolving credit sets a maximum amount that a distributor can owe the Group at any one time. In determining the amount of a revolving credit for a distributor, the Group takes into account factors including the credit history, prior year's purchases, estimated purchases for the current year, funding need to expand the retail network of a distributor, and market conditions. The Group generally evaluates the revolving credit of a domestic distributor annually upon renewal of relevant distribution agreement.

The Group generally offers a credit period to each overseas customer. This credit period, the maximum of which generally does not exceed six months, varies for different overseas customers depending on the factors similar to those for determining the revolving credits for the domestic distributors mentioned above.

(b) Impairment of trade receivables

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that the prospect of recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly.

The movement in the allowance for doubtful debts during the period is as follows:

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	84,785	45,156
Impairment loss recognized	37,116	49,217
Reversal of provision for impairment	<u>(30,425)</u>	<u>(9,588)</u>
At 30 June/31 December	<u>91,476</u>	<u>84,785</u>

As at 30 June 2016, the Group's trade debtors of RMB83,372,000 (31 December 2015: RMB91,195,000) were individually determined to be impaired. The individually impaired receivables related to distributors that were in financial difficulties and management considered that the recovery of such receivables was doubtful but not remote. Consequently, specific allowances for doubtful debts of RMB83,372,000 (31 December 2015: RMB66,251,000) were recognized.

APPENDIX I**FINANCIAL INFORMATION ON THE COMPANY****17 AVAILABLE-FOR-SALE FINANCIAL ASSET**

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Measure at fair value		
– bank financial products	50,000	–
	<u>50,000</u>	<u>–</u>

The balance represented an investment in financial products operated by banks with expected annual return at 3.1% as at 30 June 2016.

18 PLEDGED DEPOSITS

Bank deposits were pledged to secure bills payable and certain bank loans as set out in notes 20 and 21 respectively.

19 CASH AND CASH EQUIVALENTS

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Cash at bank and on hand	1,993,336	2,598,097

20 TRADE AND OTHER PAYABLES

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Bills payable	40,600	23,610
Trade creditors	223,009	170,080
	<u>263,609</u>	<u>193,690</u>
Other payables and accruals	189,888	227,653
	<u>453,497</u>	<u>421,343</u>
Financial liabilities measured at amortized cost	453,497	421,343
Derivative financial instruments	11,530	5,770
Advance received	5,588	4,790
	<u>470,615</u>	<u>431,903</u>

As at 30 June 2016, bills payable were secured by pledged deposits of RMB13,500,000 (31 December 2015: RMB4,742,000), certain buildings and lease prepayments set out in notes 10 and 12 respectively.

Set out below is an ageing analysis of the trade creditors and bills payable (which are included in trade and other payables) at the end of the reporting period based on relevant invoice dates:

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	169,016	142,178
After 3 months but within 6 months	72,864	45,784
After 6 months but within 1 year	<u>21,729</u>	<u>5,728</u>
	<u>263,609</u>	<u>193,690</u>

21 BANK LOANS

As at 30 June 2016, bank loans were borrowed at variable interest rates, secured by pledged deposits (see note 18) and certain non-current assets (see notes 10 and 12), and repayable as follows:

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	1,029,042	766,148
After 1 year but within 2 years	<u>–</u>	<u>251,952</u>
	<u>1,029,042</u>	<u>1,018,100</u>

22 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Pursuant to the shareholders' resolutions passed on 8 September 2009 and 18 May 2011, the Company adopted a share option scheme ("the Share Option Scheme") whereby the Directors of the Company are authorized, at their discretion, to invite any persons (including directors, employees, suppliers, customers and other business partners) who have made valuable contribution to the Group to take up options to subscribe for the shares of the Company.

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

Details of the movements of the share options granted under the Share Option Scheme are as follows:

	Six months ended 30 June 2016		Year ended 31 December 2015	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000 '000
Outstanding at the beginning of the period/year	HK\$1.9380	14,613	HK\$2.0997	30,237
Exercised during the period/year	HK\$1.9380	(30)	HK\$1.9244	(10,761)
Forfeited during the period/year	HK\$1.9380	(1,322)	HK\$1.9380	(711)
Cancelled during the period/year	—	—	HK\$3.1511	(4,152)
Outstanding at the end of the period/year	<u>HK\$1.9380</u>	<u>13,261</u>	<u>HK\$1.9380</u>	<u>14,613</u>
Exercisable at the end of the period/year	<u>HK\$1.9380</u>	<u>10,253</u>	<u>HK\$1.9380</u>	<u>8,887</u>

The weighted average closing price of the Company's shares immediately before the dates on which share options were exercised during the period was HK\$2.14 (six months ended 30 June 2015: HK\$2.45).

The share options outstanding as at 30 June 2016 had an exercise price of HK\$1.9380 (31 December 2015: HK\$1.9380) and a weighted average remaining contractual life of 2.2 years (31 December 2015: 2.7 years).

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current tax liabilities in the consolidated statement of financial position represent:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Provision for PRC income tax	<u>75,556</u>	<u>77,404</u>

(b) **Recognized deferred tax assets and liabilities**

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets/(liabilities) arising from:		
Provision of incentive rewards and subsidies	9,819	11,149
Impairment losses for trade debtors	22,755	21,085
Pre-operating expenses, accruals and others	10,781	13,156
Withholding tax on dividends	(96,119)	(101,918)
	<u>(52,764)</u>	<u>(56,528)</u>
Represented by:		
Deferred tax assets	43,355	45,390
Deferred tax liabilities	(96,119)	(101,918)
	<u>(52,764)</u>	<u>(56,528)</u>

24 SHARE CAPITAL(a) **Authorized**

	30 June 2016 and 31 December 2015	
	No. of shares	Amount
	<i>'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each	<u>5,000,000</u>	<u>50,000</u>

(b) **Issued and fully paid**

	30 June 2016			31 December 2015		
	No. of shares	Amount		No. of shares	Amount	
	<i>'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>	<i>'000</i>	<i>HK\$'000</i>	<i>RMB'000</i>
Ordinary shares of HK\$0.01 each						
At 1 January	2,389,120	23,891	20,756	2,098,359	20,983	18,462
Shares issued under						
Top-up Placement	-	-	-	280,000	2,800	2,209
Share issued under share option scheme	<u>30</u>	<u>-⁺</u>	<u>-⁺</u>	<u>10,761</u>	<u>108</u>	<u>85</u>
At 30 June/31 December	<u>2,389,150</u>	<u>23,891</u>	<u>20,756</u>	<u>2,389,120</u>	<u>23,891</u>	<u>20,756</u>

⁺ Less than HK\$1 thousand or RMB1 thousand

25 RESERVES**(a) Share premium**

The application of the share premium of the Company is governed by the Companies Law (Revised) of the Cayman Islands. The share premium is distributable to the shareholders of the Company provided that immediately following the date on which a distribution or dividend is proposed to be paid, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Statutory reserve

Pursuant to applicable PRC regulations, the PRC subsidiaries of the Group are required to appropriate 10% of their after-tax-profit (after offsetting prior year losses) to the statutory reserve until the reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory reserve can be used upon approval by the relevant authorities to offset the accumulated losses or to increase the registered capital of the subsidiary, provided that the balance of the reserve after such increase is not less than 25% of its registered capital.

(c) Other reserve

The other reserve of the Group represents the difference between the nominal value of the shares issued by the Company as a consideration to acquire Peak (Hong Kong) International Company Limited (“Peak Hong Kong”) and the historical carrying value of Peak Hong Kong’s share capital.

(d) Exchange reserve

The exchange reserve of the Group comprises all foreign exchange differences arising from the translation of the financial statements of operations outside mainland China.

(e) Share-based payment reserve

The share-based payment reserve represents the fair value at the grant date of share options granted to eligible person that has been recognized in accordance with the accounting policy adopted for share-based payment.

26 FAIR VALUES MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group’s financial instruments, which are carried at cost, or amortized cost are not materially different from their fair values as at 31 December 2015 and 30 June 2016.

Fair value hierarchy

The following table presents the fair value of the Group’s financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs (i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date).
- Level 2 valuations: Fair value measured using Level 2 inputs (i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs). Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 30 June 2016 <i>RMB'000</i>	Fair value measurements categorized to		
		Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
Recurring fair value measurement				
Financial assets:				
Available-for-sale financial asset	50,000	–	50,000	–
Financial liabilities:				
Derivative financial instruments:				
– Foreign exchange rate swaps	11,530	–	11,530	–
	Fair value at 31 December 2015 <i>RMB'000</i>	Fair value measurements categorized to		
		Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
Recurring fair value measurement				
Financial liabilities:				
Derivative financial instruments:				
– Foreign exchange forward contracts	1,181	–	1,181	–
– Foreign exchange rate swaps	4,041	–	4,041	–
– Foreign exchange rate options	548	–	548	–

During the six months ended 30 June 2016, there were no transfers between level 1 and level 2, or transfers into or out of level 3 (2015: nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of available-for-sale financial asset in level 2 is determined by using income approach based on discounted cash flow analysis on the expected interest rates (level 2).

The fair value of foreign exchange forward contracts and foreign exchange rate swaps in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from relevant government yield curve as at the end of the reporting period and an adequate constant credit spread.

The fair value of foreign exchange rate options in Level 2 is measured by the Black-Scholes Model. Main parameters used in the Black-Scholes Model include the spot price of the foreign exchange rate as of the valuation date, strike rates, forward foreign exchange rates, implied volatilities of foreign exchange rate and the risk-free rates.

27 CAPITAL COMMITMENTS

Capital commitments outstanding as at the end of the reporting period that were not provided for in the interim financial report are as follows:

	30 June 2016 <i>RMB'000</i>	31 December 2015 <i>RMB'000</i>
Contracted for	10,056	11,354
Authorized but not contracted for	<u>363</u>	<u>494</u>
	<u><u>10,419</u></u>	<u><u>11,848</u></u>

28 MATERIAL RELATED PARTY TRANSACTIONS**(a) Key management personnel compensation**

Remuneration for key management personnel of the Group, including amounts paid to the Company's Directors, is as follows:

	Six months ended 30 June	
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Short-term employee benefits	4,574	4,477
Contributions to defined contribution retirement plans	<u>36</u>	<u>37</u>
	<u><u>4,610</u></u>	<u><u>4,514</u></u>

The above remuneration is included in "staff costs" (note 6(b)).

(b) Lease of land and properties

During the six months ended 30 June 2016, the Group leased certain land and properties from Fujian Peak Group Co., Ltd, which was controlled by Mr. Xu Jingnan, Mr. Xu Zhihua, Mr. Xu Zhida and Ms. Wu Tigao (the "Xu's family"). The rental expenses for the six months ended 30 June 2016 were RMB2,911,000 (six months ended 30 June 2015: RMB1,129,000).

(c) Top-up Placement

On 23 June 2015, the Company, Ever Sound Development Limited (a controlling shareholder of the Company as defined under the Listing Rules), and placing agents entered into the Top-up Placement whereby: (i) the controlling shareholder sold 280,000,000 ordinary shares of the Company to placees procured by the placing agents on 23 June 2015 at the price of HK\$2.48 per share; and (ii) the Company issued 280,000,000 new ordinary shares to the controlling shareholder at the same price of HK\$2.48 per share upon completion of the transaction mentioned in (i). The Top-up Placement was completed on 7 July 2015. The financial impact of the Top-up Placement is set out in note 24(b).

(d) Transactions and balances with related parties

During the six months ended 30 June 2016, the Group obtained advances of total amount of RMB24,533,000 from an entity controlled by the three executive directors of the Company (six months ended 30 June 2015: nil) with a maximum outstanding balance of RMB24,533,000 (six months ended 30 June 2015: nil). The advances were unsecured and interest free. The Group repaid all such advances to the entity before 30 June 2016.

29 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

On 26 July 2016, Xu's Sport Company Limited (the "Offeror"), jointly controlled by Mr. Xu Jingnan (the Chairman of the Company and an executive Director), Mr. Xu Zhihua (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhida) and Mr. Xu Zhida (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhihua) (hereinafter collectively referred to as "Offeror Concert Parties"), requested the Board to put forward a proposal (the "Proposal") to privatize the Company by way of a scheme of arrangement under Section 86 of the Cayman Islands Companies Law (the "Scheme"). Under the Proposal, shares of the Company other than those held directly or indirectly by Offeror Concert Parties (the "Scheme Shares") will be cancelled in exchange for the payment by the Offeror under the Scheme to each holder of the Scheme Shares the sum of HK\$2.60 in cash per Scheme Share. In addition, the Offeror will make (or procure to be made on its behalf) an appropriate offer to the option holders to cancel every vested and unvested share option in accordance with Rule 13 of the Takeovers Code. Such option offer will be conditional upon the Scheme becoming effective.

Management considered that the Proposal had no financial impact on the Company and the consolidated financial statements of the Group for the period ended 30 June 2016.

2. STATEMENT OF INDEBTEDNESS

At the close of business on 30 June 2016, being the latest practicable date for the purpose of the indebtedness statement of the Group, the Group had outstanding unsecured loans of approximately RMB1,029,042,000 and undrawn bank facility in the total amount of approximately RMB70,987,000.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade, bills and other payables in the ordinary course of the business of the Group, the Group did not have outstanding at the close of business on 30 June 2016 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. MATERIAL CHANGE

The Directors confirm that save as and except for the below (which are reflected in the interim report of the Company for the six months ended 30 June 2016), there was no material change in the financial or trading position or outlook of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date:

- (i) the Group recorded an increase in inventories as at 30 June 2016 as compared to that as at 31 December 2015, which was mainly due to the increase in finished goods; and
- (ii) the Group recorded other net losses for the six months ended 30 June 2016 as compared to other net income during the corresponding period in 2015, which was mainly due to (a) the exchange loss arising from the depreciation of Renminbi against the U.S. dollar, and (b) the loss arising from the fair value changes in the derivative financial instrument.

1. RESPONSIBILITY STATEMENT

The information contained in this Scheme Document relating to the Group has been supplied by the Company. The issue of this Scheme Document has been approved by the Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Offeror) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Offeror) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The information contained in this Scheme Document relating to Offeror has been supplied by Offeror. The issue of this Scheme Document has been approved by the directors of the Offeror, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by the Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was HK\$50,000,000 divided into 5,000,000,000 Shares and the Company had 2,389,150,394 Shares in issue;
- (b) the Company had issued 30,000 new Shares pursuant to the exercise of outstanding Share Option(s) since 31 December 2015, being the end of the last financial year of the Company, up to the Latest Practicable Date;
- (c) all of the Shares ranked *pari passu* in all respects as regards rights to capital, dividends and voting;
- (d) there were certain outstanding Share Options granted under the Share Option Scheme, pursuant to which up to a maximum of 12,562,000 new Shares may be issued, and of which outstanding Share Option(s) held by Ms. Wu Bingrui (the spouse of Mr. Xu Zhida and an Offeror Concert Party) entitled her to subscribe for 300,000 new Shares, and the balance of the Share Options were held by Dr. Xiang Bing (being an independent non-executive Director) and certain employees of the Group. The per Share exercise price of each of these outstanding Share Option was HK\$1.938. Among the abovementioned Share Options, outstanding Share Options with respect to 9,850,000 new Shares had already vested as at the Latest Practicable date, and outstanding Share Options with respect to 2,712,000 new Shares were expected to vest on 1 January 2017. The exercise of all the said Share Options in full would result in the issue of 12,562,000 new Shares, representing approximately 0.526% of the issued share capital of the Company as at the Latest Practicable Date and approximately 0.523% of the issued share capital of the Company as enlarged by the issue of such new Shares; and

- (e) other than the outstanding Share Options, there were no outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

3. MARKET PRICE

The table below sets out the closing price of the Shares on the Stock Exchange on (i) the Latest Practicable Date; (ii) the Last Trading Day; (iii) the last trading day before the Initial Announcement Date and the Offer Period Commencement Date on 24 May 2016 (being 20 May 2016); and (iv) the last Business Day of each of the calendar months during the period commencing six months preceding the Offer Period Commencement Date and ending on the Latest Practicable Date:

	Closing price for each Share (HK\$)
30 November 2015	2.44
31 December 2015	2.17
29 January 2016	1.95
29 February 2016	1.79
31 March 2016	1.90
29 April 2016	2.16
20 May 2016	1.92
31 May 2016	2.22
30 June 2016	2.32
25 July 2016 (Last Trading Day)	2.35
29 July 2016	2.39
31 August 2016	2.41
20 September 2016 (Latest Practicable Date)	2.47

The lowest and highest closing prices of Shares as quoted on the Stock Exchange during the period commencing six months preceding the Offer Period Commencement Date and ending on the Latest Practicable Date were HK\$1.78 per Share on 3 March 2016, and HK\$2.49 per Share on 25 November 2015 and 26 November 2015.

The Cancellation Price of HK\$2.60 per Scheme Share represents a premium of approximately 10.6% over the closing price of HK\$2.35 per Share as quoted on the Stock Exchange on 25 July 2016 (being the Last Trading Day).

4. DISCLOSURE OF INTERESTS

For the purpose of this paragraph, “interested” and “interests” have the same meanings as given to them in the appropriate part of the SFO.

(a) Interests and dealings in Shares

- (i) As at the Latest Practicable Date, the Offeror and the Offeror Concert Parties had the following interests in the Shares:

Shareholders	As at the Latest Practicable Date	
	Number of Shares	%
Offeror		
Xu's Sport (Note 1)	–	–
Offeror Concert Parties		
The Controlling Shareholder (Note 2)	911,804,246	38.16
Alpha Top (Note 3)	273,060,000	11.43
Brilliant Lead (Note 4)	276,960,000	11.59
Aggregate number of Shares of the Offeror and the Offeror Concert Parties	1,461,824,246	61.19
Other public Shareholders	927,326,148	38.81
Total number of Independent Shareholders	927,326,148	38.81
Total	2,389,150,394	100.00

Notes:

- The issued shares of the Offeror are held by Mr. Xu Jingnan (the Chairman of the Company and an executive Director), Mr. Xu Zhihua (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhida) and Mr. Xu Zhida (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhihua) as to 40%, 30% and 30%, respectively.
- The issued shares of the Controlling Shareholder are held by Mr. Xu Jingnan (the Chairman of the Company and an executive Director) and Ms. Wu Tigao (a non-executive Director and the spouse of Mr. Xu Jingnan) as to 70% and 30%, respectively.
- Alpha Top is wholly-owned by Mr. Xu Zhihua (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhida).
- Brilliant Lead is wholly-owned by Mr. Xu Zhida (an executive Director and a son of Mr. Xu Jingnan and Ms. Wu Tigao, and a brother of Mr. Xu Zhihua). Ms. Wu Bingrui (the spouse of Mr. Xu Zhida) held certain Share Option which entitled her to subscribe for 300,000 new Shares
- All percentages in the above table are approximations.

- (ii) During the Disclosure Period, none of the Offeror, the Offeror Concert Parties, directors of the Offeror and the Directors had dealt in the Shares for value.
- (iii) As at the Latest Practicable Date, there were certain outstanding Share Options granted under the Share Option Scheme, pursuant to which up to a maximum of 12,562,000 new Shares may be issued, of which outstanding Share Options with respect to 9,850,000 new Shares had already vested as at the Latest Practicable Date, and outstanding Share Options with respect to 2,712,000 new Shares are expected to vest on 1 January 2017. The exercise of all the said Share Options in full would result in the issue of 12,562,000 new Shares, representing approximately 0.526% of the issued share capital of the Company as at the Latest Practicable Date and approximately 0.523% of the issued share capital of the Company as enlarged by the issue of such new Shares. As at the Latest Practicable Date, the Offeror Concert Parties and/or Directors had the following interests in the Share Options:

Optionholder	Number of new Shares that may be issued under the outstanding Share Option	Exercise Price (HK\$)	Exercise Period
Ms. Wu Bingrui <i>(being an Offeror Concert Party)</i>	300,000	1.938	1 May 2014 to 30 April 2018
Dr. Xiang Bing <i>(being an independent non- executive Director)</i>	200,000	1.938	1 May 2014 to 30 April 2018

- (iv) None of the Offeror, Offeror Concert Parties, directors of the Offeror and Directors had dealt for value in any convertible securities, warrants, options or derivatives in respect of the Shares.
- (v) During the Disclosure Period, no dealing in Shares for value has been conducted by Huatai Financial Group, for its own account or on a discretionary basis.
- (vi) As at the Latest Practicable Date, no person had, prior to the posting of this Scheme Document irrevocably committed himself to accept or reject the offer. Accordingly, no such person had dealt for value in any Shares or any convertible securities, warrants, options, or derivatives in respect of the Shares during the Disclosure Period.
- (vii) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company, or no adviser of the Company as specified in class (2) of the definition of associate under the Takeovers Code (other than

exempt principal traders of such adviser as recognised by the SFC as such for purpose of the Takeovers Code) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares. During the period commencing on the Offer Period Commencement Date and up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

- (viii) As at the Latest Practicable Date, no person had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares with the Offeror (or with the Offeror Concert Parties). Accordingly, no such person owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
- (ix) As at the Latest Practicable Date, no person had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares with the Company (or any person who is an associate of the Company by virtue of class (1) to (4) of the definition of “associate” under the Takeovers Code). Accordingly, during the period commencing on the Offer Period Commencement Date and up to the Latest Practicable Date, no such person owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options of derivatives in respect of the Shares.
- (x) As at the Latest Practicable Date, save as disclosed in paragraph 4(a)(i) and (iii) of this section and the table below, none of the Directors had any interest in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares:

Director	Nature of interest	Number of Shares held	Approximate percentage of total issued share capital of the Company
Xu Jingan (<i>Note 1</i>)	Interest held by controlled corporation	911,804,246	38.16%
Xu Zhihua (<i>Note 2</i>)	Interest held by controlled corporation	273,060,000	11.43%
Xu Zhida (<i>Note 3</i>)	Interest held by controlled corporation	276,960,000	11.59%
Wu Tigao (<i>Note 1</i>)	Interest held by controlled corporation	911,804,246	38.16%

Notes:

1. These shares were held by Ever Sound Development Limited, the entire issued share capital of which was owned as to 70% by Mr. Xu Jingnan and 30% by Ms. Wu Tigao.
 2. These shares were held by Alpha Top Group Limited, a corporation wholly owned and controlled by Mr. Xu Zhihua.
 3. These shares were held by Brilliant Lead Group Limited, a corporation wholly owned and controlled by Mr. Xu Zhida. Ms. Wu Bingrui (the spouse of Mr. Xu Zhida) held certain Share Option(s) which entitled her to subscribe for 300,000 new Shares.
- (xi) Save as disclosed in paragraph 4(a)(i), (iii) and (x) of this section, none of the Offeror, Offeror Concert Parties, directors of the Offeror and Directors owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares as at the Latest Practicable Date.
- (xii) As at the Latest Practicable Date, none of the Offeror, the Offeror Concert Parties, the Company and the Directors had borrowed or lent any Shares.
- (xiii) As at the Latest Practicable Date, no fund managers (other than exempt fund managers as recognised by the SFC as such for the purpose of the Takeovers Code) connected with the Company who managed funds on a discretionary basis had owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares. During the period commencing on the Offer Period Commencement Date and up to the Latest Practicable Date, no fund managers (other than exempt fund managers) connected with the Company who managed funds on a discretionary basis had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

(b) Interests and dealings in the Offeror's shares

Save as disclosed in "13. Information on the Offeror" in the Explanatory Memorandum, the Company and the Directors had no interests in the Offeror's shares or convertible securities, warrants, options or derivatives in respect of the Offeror's shares as the Latest Practicable Date. Save as disclosed in "13. Information on the Offeror", during the Disclosure Period, neither the Company nor the Directors had dealt for value in any shares or any convertible securities, warrants, options or derivatives in respect of the Offeror's shares.

(c) Arrangements with the Offeror and Offeror Concert Parties in respect of the Proposal and other interests

As at the Latest Practicable Date:

- (i) there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code that existed between the Offeror or Offeror Concert Parties and any other person;

- (ii) there was no agreement or arrangement to which any Offeror was a party which related to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme; and
- (iii) no benefit was or would be paid/given to any Director as compensation for loss of office or otherwise in connection with the Scheme;
- (iv) as set out in the paragraph headed “Terms of the Proposal and the Option Offer – Financial resources” in Part IV of this Scheme Document, the Offeror intends to finance the cash required for the cancellation of the Scheme Shares and the Option Offer by a loan facility from CMB (under a facility agreement between the Offeror (the interests of Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida, all being Offeror Concert Parties and Directors, in the Offeror are set out in paragraph 4(a)(i) of this section) as borrower and CMB as lender dated 26 July 2016) when the Scheme becomes effective. Upon drawdown, the said loan will be secured by, among others, the following securities in favour of CMB (or a branch of it): (1) a charge dated 26 July 2016 by the Controlling Shareholder, Alpha Top, Brilliant Lead and the Offeror over certain Shares then held by them (the “**Share Charge**”, the interests of Mr. Xu Jingnan, Ms. Wu Tigao, Mr. Xu Zhihua and Mr. Xu Zhida, all being Offeror Concert Parties and Directors, in the aforesaid companies are set out in paragraph 4(a)(i) of this section), (2) a charge dated 26 July 2016 by Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida over the entire issued share capital of the Offeror, (3) a personal guarantee dated 26 July 2016 from each of Mr. Xu Jingnan, Ms. Wu Tigao, Mr. Xu Zhihua and Mr. Xu Zhida, (4) a charge dated 25 July 2016 by 福建匹克集團有限公司 (Fujian Peak Group Co., Ltd., being a private PRC company held by Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida), Mr. Xu Zhihua and Mr. Xu Zhida over the equity capital of 廈門匹克投資管理有限公司 (“**XPIM Co**”, Xiamen Peak Investment Management Co., Ltd., being a private PRC company holding a building situated at 廈門市明思區觀音山片區D05地塊 (Land no. D05, Guanyin Hill, Siming District, Xiamen) in the PRC, (5) a charge to be registered with the relevant PRC authority prior to the drawdown of the said loan by XPIM Co over the aforesaid building, and (6) charges over cash deposits dated 25 July 2016 by the private equity funds of 深圳道格資本管理有限公司 (“**DG Management Co**”, Shenzhen DG Management Co., Ltd.) in the PRC and further charges over additional (if any) cash deposits (and as per the agreement dated 21 July 2016 between Mr. Xu Jingnan, Ms. Wu Tigao, Mr. Xu Zhihua, Mr. Xu Zhida, XPIM Co and DG Management Co relating to the said cash deposits, subject to and after the privatisation of the Company, the said cash deposits will be used to subscribe for an equity interest (the percentage of which will be equal to the total amount of the said cash deposits relative to the sum of (x) the Cancellation Price times the number of the outstanding Share immediately before the EGM and (y) the aggregate consideration for the cancellation of the Share Options and any additional Scheme Shares issued under such Options (if any)) in 廈門匹克體育用品有限公司 (Xiamen Peak Sports Goods Co., Ltd.), being a PRC subsidiary of the Company then holding substantially all the assets of the Group), and, save as set out above:

- (1) there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be issued to the Offeror under and upon completion of the Scheme;
 - (2) there was no agreement, arrangement or understanding (including any compensation arrangement) between any of the Offeror or Offeror Concert Parties and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependent upon the Scheme;
 - (3) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the offer or otherwise connected with the Scheme; and
 - (4) no material contract had been entered into by the Offeror in which any Director had a material personal interest; and
- (v) save for the service contracts and letters of appointment set out below, no other Directors had a service contract or letter of appointment with any member of the Group or associated companies of the Company in force which (i) (including both continuous and fixed term contracts) had been entered into or amended within 6 months before the Offer Period Commencement Date; or (ii) was a continuous contract with a notice period of 12 months or more; or (iii) was a fixed term contract that has more than 12 months to run irrespective of the notice period:

Name of Director	Commencement date of term of appointment	Expiry date of term of appointment	Remuneration
Xu Jingnan	29 September 2015	28 September 2018	Annual remuneration of RMB1,500,000, subject to determination by the Board under the authority of Shareholders given in a general meeting, plus discretionary bonus (determined by the Board according to the recommendations by the remuneration committee of the Company) and other welfare (subject to the discretion of the Board and the remuneration committee of the Company)
Xu Zhihua	29 September 2015	28 September 2018	Annual remuneration of RMB1,100,000, subject to determination by the Board under the authority of Shareholders given in a general meeting, plus discretionary bonus (determined by the Board according to the recommendations by the remuneration committee of the Company) and other welfare (subject to the discretion of the Board and the remuneration committee of the Company)

Name of Director	Commencement date of term of appointment	Expiry date of term of appointment	Remuneration
Xu Zhida	29 September 2015	28 September 2018	Annual remuneration of RMB1,000,000, subject to determination by the Board under the authority of Shareholders given in a general meeting, plus discretionary bonus (determined by the Board according to the recommendations by the remuneration committee of the Company) and other welfare (subject to the discretion of the Board and the remuneration committee of the Company)
Wu Tigao	29 September 2015	28 September 2018	Annual remuneration of RMB180,000, subject to determination by the Board under the authority of Shareholders given in a general meeting
Xiang Bing	29 September 2015	28 September 2018	Annual remuneration of RMB180,000, subject to determination by the Board under the authority of Shareholders given in a general meeting
Feng Lisheng	12 January 2015	11 January 2018	Annual remuneration of RMB100,000, subject to determination by the Board under the authority of Shareholders given in a general meeting
Zhu Haibin	1 January 2016	31 December 2018	Annual remuneration of RMB100,000, subject to determination by the Board under the authority of Shareholders given in a general meeting

5. MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the Directors of the Company to be pending or threatened against any member of the Group.

6. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) have been entered into by the Company or any of its subsidiaries after the date two years before the Offer Period Commencement Date up to and including the Latest Practicable Date:

- (a) a share placing agreement dated 23 June 2015 entered into between the Company, the Controlling Shareholder (as vendor), China International Capital Corporation Hong Kong Securities Limited (as placing agent) and Bocom International Securities Limited (as placing agent) pursuant to which the placing agents have agreed to place 280,000,000 Shares to places at HK\$2.48 per Share;
- (b) a share subscription agreement dated 23 June 2015 entered into between the Company and the Controlling Shareholder pursuant to which the Controlling Shareholder has agreed to subscribe for, and the Company has agreed to allot and issue to the Controlling Shareholder, 280,000,000 new Shares with par value of HK\$0.01 each to the Controlling Shareholder at the price of HK\$2.48 per Share; and
- (c) an undertaking dated 26 July 2016 by the Company to CMB pursuant to the Share Charge.

7. EXPERTS

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Scheme Document:

Name	Qualifications
Huatai Financial	A licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
Gram Capital	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

8. CONSENTS

Each of the experts mentioned above has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions and/or letters and/or the references to its name and/or opinions and/or letters in the form and context in which they respectively appear.

9. MISCELLANEOUS

- (a) The Directors are:

Executive Directors:

Mr. XU Jingnan (*Chairman*)

Mr. XU Zhihua (*Chief Executive Officer*)

Mr. XU Zhida

Non-executive Director:

Ms. WU Tigao

Independent Non-executive Director:

Dr. XIANG Bing

Mr. FENG Lisheng

Mr. ZHU Haibin

- (b) The joint company secretaries of the Company are Ms. Soon Yuk Tai and Ms. So Yee Kwan.
- (c) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands.
- (d) The principal place of business of the Company in Hong Kong is at Unit 1613 & 1615, 16th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong.
- (e) The head office of the Company is situated at Peak Building, Dongbao Industrial Area, Donghai, Fengze district, Quanzhou, Fujian Province, the PRC.
- (f) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, situated at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (g) The Offeror is a company incorporated in Hong Kong on 21 June 2016 with limited liability. Its registered office is situated at 19th Floor, Beverly House, Nos. 93-107 Lockhart Road, Hong Kong.
- (h) The registered office of the Controlling Shareholder is 3rd Floor, J & C Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands, VG1110.
- (i) The registered office of Alpha Top is 3rd Floor, J & C Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands, VG1110.

- (j) The registered office of Brilliant Lead is 3rd Floor, J & C Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands, VG1110.
- (k) The directors of the Offeror are Mr. Xu Jingnan, Mr. Xu Zhihua and Mr. Xu Zhida.
- (l) The directors of the Controlling Shareholder are Mr. Xu Jingnan and Ms. Wu Tigao.
- (m) The sole director of Alpha Top is Mr. Xu Zhihua.
- (n) The sole director of Brilliant Lead is Mr. Xu Zhida.
- (o) The principal place of business of Huatai Financial is at Room 5808-12, 58/F, The Center, 99 Queen's Road Central, Hong Kong.
- (p) The principal place of business of Gram Capital is at Room 1209, 12/F., Nan Fung Tower, 88 Connaught Road Central / 173 Des Voeux Road Central, Central, Hong Kong .

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company at Unit 1613 & 1615, 16th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong from the date of the Scheme Document to 19 October 2016 (being the date of the EGM), Monday to Friday and on the website of the Company at ir.peaksport.com and the website of SFC at www.sfc.hk from the despatch of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of Xu's Sport;
- (c) the annual report of the Company for the years ended 31 December 2015 and 31 December 2014;
- (d) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;
- (e) the letter from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (f) the letter from Gram Capital, the text of which is set out in Part VI of this Scheme Document;

- (g) written consents referred to in the section headed “8. Consents” in this Appendix;
- (h) the material contracts referred to in the section headed “6. Material Contracts” in this Appendix;
- (i) the service contracts referred to in the section headed “4. Disclosure of Interests – (c) Arrangements with the Offeror and Offeror Concert Parties in respect of the Proposal and other interests” in this Appendix;
- (j) the irrevocable undertakings of the Optionholders referred to in the section headed “Terms of the Proposal and the Option Offer – Irrevocable Undertakings” in Part VI of this Scheme Document; and
- (k) this Scheme Document.

IN THE GRAND COURT OF THE CAYMAN ISLANDS

CAUSE NO. 126 OF 2016 (CQJ)

IN THE MATTER OF

PEAK SPORT PRODUCTS CO., LIMITED
AND IN THE MATTER OF
SECTION 86 OF THE COMPANIES LAW (2013 REVISION)
OF THE CAYMAN ISLANDS

SCHEME OF ARRANGEMENT

between

PEAK SPORT PRODUCTS CO., LIMITED

and

THE HOLDERS OF SCHEME SHARES
(as hereinafter defined)

- (A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set out opposite them:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Alpha Top”	Alpha Top Group Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company
“Brilliant Lead”	Brilliant Lead Group Limited, a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company
“Business Day”	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands

“Cancellation Price”	the cancellation price of HK\$2.60 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“Cayman Islands Grand Court”	the Grand Court of the Cayman Islands
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961), as consolidated and revised, of the Cayman Islands
“Company”	Peak Sport Products Co., Limited (匹克體育用品有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited
“Controlling Shareholder”	Ever Sound Development Limited, a company incorporated in the British Virgin Islands and the controlling shareholder of the Company
“Director”	a director of the Company
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Cayman Islands Grand Court, becomes effective in accordance with its terms and the Cayman Islands Companies Law, being the date on which a copy of the Order of the Cayman Islands Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be 31 October 2016 (Cayman Islands time)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	20 September 2016 , being the latest practicable date for ascertaining certain information contained in the Scheme Document
“Offeror”	Xu’s Sport Company Limited 許氏體育有限公司, a company incorporated in Hong Kong with limited liability

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|------------------------------|--|
| “Record Date” | 31 October 2016 , or such other time and date as shall have been announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme |
| “Record Time” | 4:00 p.m. (Hong Kong time) on the Record Date |
| “Register” | the principal or branch register of members of the Company (as the case may be) |
| “Scheme” | a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of all the Scheme Shares and reduction of share capital and the restoration of the share capital of the Company to the amount immediately before such cancellation and reduction of share capital |
| “Scheme Document” | this composite scheme document, including each of the letters, statements, appendices and notices in it |
| “Scheme Shareholders” | holder(s) of Scheme Shares as at the Record Time |
| “Scheme Shares” | Share(s) other than those held directly or indirectly by the Controlling Shareholder, Alpha Top and Brilliant Lead as at the Record Time on the Record Date |
| “Share(s)” | ordinary share(s) of HK\$0.01 each in the share capital of the Company |
| “Shareholders” | the holders of the Shares |
| “Takeovers Code” | The Code on Takeovers and Mergers of Hong Kong |
- (B) The Company was incorporated as an exempted company on 15 February 2008 in the Cayman Islands under the Companies Law.
- (C) The authorized share capital of the Company as at the Latest Practicable Date was HK\$50,000,000 divided into 5,000,000,000 Shares of which 2,389,150,394 Shares were issued and fully paid, with the remainder being unissued.
- (D) The Offeror has proposed the privatisation of the Company by way of the Scheme.
- (E) The primary purpose of the Scheme is that all of the Scheme Shares should be cancelled and extinguished and that the Company should become wholly-owned by the Offeror, the Controlling Shareholder, Alpha Top and Brilliant Lead.

- (F) On the Latest Practicable Date, the Offeror does not hold any shares and 1,461,824,246 Shares were legally and/or beneficially owned by the parties acting in concert with the Offeror and registered as follows:

Shareholders	As at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>Approximate %</i>
Controlling Shareholder	911,804,246	38.16
Alpha Top	273,060,000	11.43
Brilliant Lead	276,960,000	11.59
Subtotal	1,461,824,246	61.19
Holders of Scheme Shares (“Scheme Shareholders”)	927,326,148	38.81
Total Shares in issue	2,389,150,394	100

- (G) Each of the parties acting in concert with the Offeror will procure that any Shares in respect of which they are beneficially interested will not be represented or voted at the meeting convened at the direction of the Cayman Islands Grand Court for the purpose of considering and, if thought fit, approving the Scheme.
- (H) The Offeror has and persons acting in concert with them have undertaken to the Cayman Islands Grand Court to be bound by the Scheme, and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme.

THE SCHEME

PART I

Cancellation of the Scheme Shares

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon such reduction of capital taking effect, the share capital of the Company will be increased to its former amount by issuing to the Offeror the same number of Shares as the number of Scheme Shares cancelled and extinguished; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the capital reduction referred to in paragraph 1(a) above in paying up in full at par the new Shares issued to the Offeror, credited as fully paid.

PART II**Consideration for the cancellation and extinguishment of the Scheme Shares**

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid to each Scheme Shareholder the Cancellation Price.

PART III**General**

3. (a) As soon as possible and in any event not later than seven (7) Business Days after the Effective Date, the Offeror shall send or cause to be sent to Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to Clause 2 of this Scheme.
- (b) Unless otherwise indicated in writing to the branch share registrar of the Company in Hong Kong, being Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, all such cheques shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Time or, in the case of joint holders, at the address as appearing on the Register at the Record Time of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
- (c) Cheques shall be posted at the risk of the addressee and neither the Offeror nor the Company shall be responsible for any loss or delay in the transmission of the same.
- (d) Each cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the monies represented thereby.
- (e) On or after the day being six (6) calendar months after the posting of the cheque pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been encashed or that has been returned uncashed and shall place all monies represented thereby in a deposit account of the Offeror with a licensed bank of Hong Kong selected by the Company. The Offeror shall hold such monies on trust for those entitled to it under the terms of this Scheme until the expiration of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques referred to in paragraphs (b) of this Clause 3 of which they are payees have not been cashed. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

- (f) On the expiration of six (6) years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme.
 - (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
 - (h) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.
4. Each instrument of transfer and certificate existing at the Record Time in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of the Offeror to deliver up the same to the Offeror for the cancellation thereof.
 5. All mandates or relevant instructions to the Company in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.
 6. This Scheme shall become effective as soon as a copy of the order of the Cayman Islands Grand Court sanctioning this Scheme under Section 86 of the Companies Law has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law.
 7. Unless this Scheme shall have become effective on or before 28 February 2017, or such later dates as the Company and the Offeror may agree, or as the Cayman Islands Grand Court, on application of the Company and/or the Offeror may allow, this Scheme shall lapse.
 8. The Company and the Offeror may consent jointly for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition that the Cayman Islands Grand Court may think fit to approve or impose.
 9. All costs, charges and expenses of the advisers and counsels appointed by the Company, will be borne by the Company, all costs, charges and expenses of the advisers and counsels appointed by the Offeror will be borne by the Offeror, and other costs, charges and expenses of this Scheme will be borne by the Company.

23 September 2016

**IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION**

Cause No. 126 of 2016 (CQJ)

**IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2013 REVISION)
AND IN THE MATTER OF THE GRAND COURT RULE, ORDER 102
AND IN THE MATTER OF PEAK SPORT PRODUCTS CO., LIMITED**

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 12 September 2016 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between Peak Sport Products Co., Limited (the “**Company**”) and the Scheme Shareholders and that the Court Meeting will be held at Rooms 1 & 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Hong Kong on Wednesday, 19 October 2016 at 3:00 p.m. at which place and time all Scheme Shareholders are requested to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory memorandum explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend and vote in their stead. A form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 23 September 2016 despatched to members of the Company on 23 September 2016.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of such joint holding, the first named member being the senior.

It is requested that forms appointing proxies be deposited at the Hong Kong branch share registrar of the Company in Hong Kong at Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 3:00 p.m. on Monday, 17 October 2016, but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting.

By the Order, the Court has appointed Zhu Haibin, a director of the Company, or failing him, Feng Lisheng, also a director of the Company, or failing him any other person who is a director of the Company as at the date of the Order, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent application seeking the sanction of the Court.

By Order of the Court
Peak Sport Products Co., Limited

Dated 23 September 2016

Registered Office
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong
Units 1613 & 1615, 16th Floor
Tower Two, Lippo Centre
89 Queensway
Hong Kong



PEAK SPORT PRODUCTS CO., LIMITED
匹克體育用品有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1968)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Peak Sport Products Co., Limited (the “**Company**”) will be held at Rooms 1 & 2, United Conference Centre, 10/F, United Centre, 95 Queensway, Hong Kong on Wednesday, 19 October 2016 at 3:20 p.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened at the direction of the Grand Court of the Cayman Islands for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following as a special resolution and (with or without amendment) as an ordinary resolution, respectively:

SPECIAL RESOLUTION

1 “**THAT AS A SPECIAL RESOLUTION:**

- (a) pursuant to (and subject to approval of) the scheme of arrangement dated 23 September 2016 (the “**Scheme of Arrangement**”) between the Company and the holders of Scheme Shares (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares (as defined in the Scheme of Arrangement); and
- (b) the directors of the Company be and are hereby authorised to do all such acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of capital pursuant to the Scheme of Arrangement, including (without limitation) the giving of consent to any modification of or addition to, the Scheme of Arrangement or the reduction of capital, which the Grand Court of the Cayman Islands may see fit to impose.”

ORDINARY RESOLUTION2 **“THAT AS AN ORDINARY RESOLUTION:**

- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, the share capital of the Company will be increased to its former amount by the issuance at par to Xu’s Sport Company Limited, credited as fully paid, of the aggregate number of Shares (as defined in the Scheme of Arrangement) as is equal to the number of Scheme Shares cancelled;
- (b) the reserve created in the Company’s books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to Xu’s Sport Company Limited; and
- (c) the authorisation of any one of the directors of the Company to apply to The Stock Exchange of Hong Kong Limited for the withdrawal of the listing of the shares of the Company be and is approved, confirmed and ratified.”

By Order of the Board
Peak Sport Products Co., Limited
Xu Jingnan
Chairman

Dated 23 September 2016

Registered office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KYI-1111
Cayman Islands

Principal Place of Business in Hong Kong

Units 1613 & 1615, 16th Floor
Tower Two, Lippo Centre
89 Queensway Hong Kong

Notes:

- (1) A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint another person as his proxy to attend and, on a poll, to vote instead of him. A member holding two or more shares may appoint more than one proxy. A proxy need not be a member of the Company, but must attend the extraordinary general meeting in person to represent him.
- (2) A **white** form of proxy for use at the extraordinary general meeting is enclosed with the composite document containing the Scheme of Arrangement dated 23 September 2016 despatched to members of the Company.
- (3) In order to be valid, the **white** form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy thereof, must be lodged with the Hong Kong branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof failing which the form of proxy will not be valid. Completion and return of the form of proxy will not preclude a member from attending the extraordinary general meeting and voting in person if he so wishes. In the event that a member attends and votes at the extraordinary general meeting after having lodged his form of proxy, his form of proxy shall be deemed to be revoked.
- (4) In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

The register of members of the Company will be closed from Friday, 14 October 2016 to Wednesday, 19 October 2016 (both days inclusive) and during such period no transfer of shares will be registered. In order to be entitled to attend and vote at the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 13 October 2016.

The following is a sample of the Option Offer Letter being sent to the holders of the Share Options in connection with the Option Offer.

Xu's Sport Company Limited
Units 1613 & 1615, 16th Floor
Tower Two, Lippo Centre
89 Queensway
Hong Kong

23 September 2016

To the Optionholders

Dear Sir/Madam,

**OPTION OFFER
IN RELATION TO THE PROPOSED PRIVATISATION OF
PEAK SPORT PRODUCTS CO., LIMITED
BY XU'S SPORT COMPANY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)**

A composite scheme document dated the same date as this letter issued jointly by Xu's Sport Company Limited (the "**Offeror**") and Peak Sport Products Co., Limited (the "**Company**") (the "**Scheme Document**") is enclosed with this letter. Terms used but not defined in this letter shall have the same meanings and construction as in the Scheme Document. This letter should be read in conjunction with the Scheme Document.

The Offeror and the Company issued a joint announcement dated 26 July 2016 (the "**Announcement**") which stated that, among others, on 26 July 2016, the board of directors of the Offeror had requested the Board of the Company to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law. As stated in the Announcement, as part of the Proposal, the Offeror would make an appropriate offer, namely the Option Offer, to the Optionholders for the cancellation of every vested and unvested Share Option in accordance with Rule 13 of the Takeovers Code. The Option Offer will be conditional upon the Scheme becoming effective.

This letter explains the actions you may take in relation to your outstanding Share Option(s). You are advised to refer to the Scheme Document when considering them.

Your attention is also drawn to the terms and conditions of the Share Option Scheme.

TERMS OF THE OPTION OFFER

We are making the Option Offer, which is conditional on the Scheme becoming effective, with respect to the Share Option(s) held by you.

Any outstanding Share Options, to the extent not exercised on or prior to the Latest Option Exercise Date, will lapse automatically fourteen (14) days after the Effective Date. You may accept the Option Offer by lodging a completed Form of Acceptance in respect of the Option Offer by the prescribed deadline and, if the Option Offer becomes unconditional, you will be entitled to the Option Offer Price with respect to the Shares underlying your Share Option(s).

The Option Offer Price of HK\$0.662 represents the “see-through” price for the outstanding Share Options, which is the relevant Cancellation Price minus the relevant per Share exercise price under the Share Options, in accordance with the “see-through” principle of Rule 13 of the Takeovers Code.

The Option Offer is conditional upon the Scheme becoming effective. The Conditions of the Scheme are set out in the section headed “4. Conditions of the Scheme and the Proposal” in the Explanatory Memorandum in the Scheme Document. In addition, all payments in respect of the Option Offer Price will be made by cheques in Hong Kong dollars.

You are further advised to refer to the section headed “17. Overseas Shareholders and Overseas Optionholders”, the section headed “18. Registration and Payment” and the section headed “19. Taxation” in the Explanatory Memorandum in the Scheme Document.

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders and Optionholders set out in Part V of the Scheme Document and the letter from Gram Capital, the Independent Financial Adviser, set out in Part VI of the Scheme Document, which contain the recommendation of the Independent Board Committee and of the Independent Financial Adviser, respectively, in relation to the Proposal, the Scheme and the Option Offer.

COURSES OF ACTION AVAILABLE TO OPTIONHOLDERS

In summary, the choices available to you in respect of your outstanding Share Option(s) are:

- (a) to the extent any of your outstanding Share Option(s) is not exercised on or prior to the Latest Option Exercise Date, if you are a holder of outstanding Share Option(s) as at the Option Offer Record Date, you may accept the Option Offer in accordance with its terms, as set out in this letter and in the Scheme Document by allowing such unexercised outstanding Share Option(s) to remain unexercised on the Effective Date, and sign and return the completed Form of Acceptance enclosed, by not later than 4:00 p.m. (Hong Kong time) on Monday, 14 November 2016 (or such later time and/or date as may be notified to you through announcement(s)), to receive the Option Offer Price for the relevant Shares under your Share Option(s) if the Scheme becomes effective;

- (b) you may in accordance with the terms of the Share Option Scheme exercise all or any of your outstanding vested Share Option (to the extent not already exercised) to its full extent or to the extent specified in your notice of exercise of Share Option to the Company at any time after the date of this letter and up to the Latest Option Exercise Date. Any Share issued as a result of the exercise of such outstanding Share Option as mentioned above will be subject to and eligible to participate in the Scheme. Please refer to the Scheme Document for details of the Scheme and the Proposal in this regard. You will not be entitled to exercise your Share Option(s) after the Latest Option Exercise Date; or
- (c) do nothing, in which case, if the Scheme becomes effective, your unexercised outstanding Share Option(s) will lapse automatically fourteen (14) days after the Effective Date and you will not receive the Option Offer Price with respect to the relevant underlying Shares nor the Cancellation Price.

Each outstanding Share Option you hold is independent and you should make a separate decision for each one.

For further details, please refer to the remaining sections of this letter, the Scheme Document, the Form of Acceptance and the terms of the Share Option Scheme.

OUTSTANDING SHARE OPTIONS HELD AS AT THE LATEST PRACTICABLE DATE

Information on the outstanding Share Option(s) held by you as at the Latest Practicable Date is available from the company secretary of the Company. If there is any exercise of your outstanding Share Option(s) after the Latest Practicable Date, you may accept the Option Offer only in respect of such outstanding Share Option(s) which remain unexercised or unvested as at the Latest Option Exercise Date.

LAPSED SHARE OPTIONS

Please note that nothing in this letter or the Scheme Document serves to extend the life of a Share Option which lapses, will lapse, or has already lapsed, under the terms of the Share Option Scheme. You cannot exercise any Share Option or accept the Option Offer in respect of a Share Option which will have lapsed in accordance with its terms on the Option Offer Record Date.

PROFESSIONAL ADVICE

The information provided in this letter is intended to give you factual details on which to base your decision as to the action you wish to take.

If you are in doubt as to any aspect of this letter, the Scheme Document, or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

DECLARATION

By signing and returning the completed Form of Acceptance, you thereby:

- (a) warrant and confirm that each Share Option in respect of which you accept the Option Offer is valid and subsisting, free from all liens, charges, mortgages and third party interests of any nature whatsoever and you acknowledge that any option certificate or documents in respect of such Share Option shall become void once that Share Option has been cancelled as a result of your acceptance of the Option Offer pursuant to the Form of Acceptance;
- (b) acknowledge and agree that you cease to have any rights and obligations, and waive all rights and claims against any party (including the Offeror and the Company), in respect of all the Share Option(s) held by you for which you accept the Option Offer, that all rights and obligations under all such Share Option(s) will be cancelled;
- (c) confirm that the decisions which you have made on the Form of Acceptance cannot be withdrawn or altered;
- (d) authorise the Offeror, the Company, Huatai Financial and/or such person or persons as any of them may direct to do all acts and things and to complete, amend and execute any document on your behalf as may be necessary or desirable to give effect to or in connection with the acceptance you have made on the Form of Acceptance, and you hereby undertake to execute any further assurance that may be required in respect of such acceptance;
- (e) undertake to confirm and ratify any action properly or lawfully taken on your behalf by any person authorised or appointed by or pursuant to this letter and the Form of Acceptance; and
- (f) confirm that you have read, understood and agreed to the terms and conditions of the Option offer (including, without limitation, those set out in the Scheme Document, this letter and the Form of Acceptance), and that you have received and read the Scheme Document and this letter.

GENERAL

- (a) All communications, notices, Forms of Acceptance, cheques, certificates and other documents of any nature to be delivered by or sent to or from the holders of Share Options will be delivered by or sent to or from them, or their designated agents, at their risk, and none of the Offeror, the Company or Huatai Financial accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.
- (b) The provisions set out in the Form of Acceptance form part of the terms of the Option Offer.
- (c) The Option Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

- (d) Due execution of the Form of Acceptance in respect of the Option Offer will constitute an authority to the Offeror, the Company, Huatai Financial or such person(s) as any of them may direct to complete and execute on behalf of the accepting holder of Share Option(s), the Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of cancelling, or vesting in the Offeror or such person(s) as the Offeror shall direct, all rights of the Optionholders in respect of the outstanding Share Option(s) which are the subject of such acceptance.
- (e) The delivery of the Form of Acceptance, duly signed, may, if the Offeror determines it appropriate, be as effective as if it were duly completed, executed and received notwithstanding that it is not completed, executed or received strictly in accordance with the Forms of Acceptance and this letter, including the date specified for receipt or the absence of any witness attesting to the execution of any Form of Acceptance.
- (f) By completing the Form of Acceptance in respect of a particular outstanding Share Option, you irrevocably and at your own risk elect to authorise the Offeror, the Company, Huatai Financial and/or their respective agent(s) to send to you, or procure the sending to you of, the payment to which you are entitled.

ACTIONS TO BE TAKEN FOR ACCEPTING THE OPTION OFFER

In order to accept the Option Offer, you must complete and return the duly completed and executed Form of Acceptance together with relevant certificate(s) (if any) or any other document(s) evidencing the grant of the outstanding Share Option(s) to you or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Offeror, at Units 1613 & 1615, 16th Floor, Tower Two, Lippo Centre, 89 Queensway, Hong Kong for the attention of the board of directors of the Offeror and marked "Peak Sport Products Co., Limited – Option Offer" by no later than 4:00 p.m. (Hong Kong time) on Monday, 14 November 2016 (or such later time and/or date as may be notified to you through announcement(s)). If you do not complete a Form of Acceptance, subject to and conditional upon the Scheme becoming effective, your Share Option(s) will lapse automatically fourteen (14) days after the Effective Date.

Before forwarding the Form of Acceptance to the board of directors of the Offeror, please ensure that you have duly executed the Form of Acceptance.

Assuming the Option Offer will close on 14 November 2016, payment for the Option Offer Price is expected to be made within seven Business Days following the later of the date that the Option Offer becomes unconditional and the date of receipt of the duly completed Form of Acceptance by the Offeror.

No acknowledgement of receipt of any Form of Acceptance, the relevant certificate(s) (if any) or any other document(s) evidencing the grant of the outstanding Share Option(s) or other document(s) of title or entitlement (and/or any satisfactory indemnity of indemnities required in respect thereof) will be given.

RESPONSIBILITY STATEMENTS

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this letter and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinion expressed in this letter have been arrived at after due and careful consideration and there are no other facts not contained in this letter, the omission of which would make any statement in this letter (other than that relating to the Group) misleading.

Yours faithfully,
For and on behalf of
Xu's Sport Company Limited
Xu Jingnan
Director