THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Tack Fiori International Group Limited**, you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

TACKFIORI
INTERNATIONAL GROUP LIMITED

TACK FIORI INTERNATIONAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 928)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN CHINA EDUCATION MEDIA LIMITED

Financial Adviser to Tack Fiori International Group Limited

OPTIMA CAPITAL

Optima Capital Limited

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Gram Capital Limited
嘉林資本有限公司

Capitalised terms used on this cover have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out on pages 4 to 24 of this circular. A letter from the Independent Board Committee is set out on page 25 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 36 of this circular. A notice convening the EGM to be held at 10:30 a.m. on Wednesday, 5 November 2014 at Lower Lobby, Plaza 3, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the appointed time for holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

16 October 2014

CONTENTS

Pages

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the proposed acquisition of the Sale Share and the Sale Loan by the Purchaser from the Vendor pursuant to the terms and conditions of the Agreement
"Agreement"	the conditional sale and purchase agreement dated 19 August 2014 entered into between the Purchaser and the Vendor in relation to the Acquisition
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"BJ Xinzhitang"	北京新知堂教育科技開發有限公司 (Beijing Xinzhitang Educational Technology Development Company Limited), a company established in the PRC and a wholly-owned subsidiary of the Target
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"Company"	Tack Fiori International Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 928)
"Completion"	completion of the Acquisition in accordance with the terms and conditions of the Agreement
"Consideration"	the aggregate consideration for the Sale Share and the Sale Loan of HK$60 million
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held to consider and, if appropriate, approve the Agreement and the transactions contemplated thereunder
"Enlarged Group"	the Group and the Target Group
"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 and the Independent Shareholders in respect of the Agreement
"Group"	the Company and its subsidiaries

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent committee of the Board comprising all the independent non-executive Directors (namely, Dr. Leung Shiu Ki, Albert, Mr. Yau Yan Ming, Raymond and Mr. Lau Yu) established to give a recommendation to the Independent Shareholders on the terms of the Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than Mr. Wang and his associates
"Latest Practicable Date"	13 October 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Wang"	Mr. Wang Liang, an executive Director and the Chairman of the Company and a Substantial Shareholder
"NEEA"	中華人民共和國教育部考試中心 (National Education Examinations Authority, Ministry of Education, the PRC)
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, Macao Special Administrative Region and Taiwan
"Purchaser"	Tack Fiori International Group Limited, a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Company
"Sale Loan"	the entire amount of shareholder's loan due by the Target Group to the Vendor
"Sale Share"	one share with par value of US$1 in the capital of the Target, representing the entire issued share capital of the Target as at the date of the Agreement
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Substantial Shareholder"	has the meaning ascribed thereto in the Listing Rules
"Target"	China Education Media Limited, a company incorporated in the BVI with limited liability, the entire equity interest of which is owned by the Vendor
"Target Group"	the Target and its subsidiary (i.e. BJ Xinzhitang)
"Vendor"	Mr. Wong Lik Ping, the sole and ultimate beneficial owner of the Target and BJ Xinzhitang
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	percentage

For illustration purposes in this circular, amounts in RMB have been translated into HK$ at the rate of RMB1=HK$1.25 and amounts in US$ have been translated into HK$ at the rate of US$1=HK$7.75. No representation is made that any amounts in RMB and US$ could actually be converted into HK$ at the respective rates or at all.

The English translation of certain Chinese names or words in this circular are included for reference purpose only and should not be regarded as the official English translation of such Chinese names or words.

TACK FIORI INTERNATIONAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 928)

Executive Directors:
Mr. Wang Liang *(Chairman)*
Mr. Zhang Bao Yuan
Mr. Huang Limin

Independent non-executive Directors:
Dr. Leung Shiu Ki, Albert
Mr. Yau Yan Ming, Raymond
Mr. Lau Yu

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Room 2201, 22/F
Kwan Chart Tower
No. 6 Tonnochy Road
Wanchai
Hong Kong

16 October 2014

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN CHINA EDUCATION MEDIA LIMITED

INTRODUCTION

On 19 August 2014, the Board announced that after the trading hours of the Stock Exchange on 19 August 2014, the Purchaser, a direct wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Share, representing the entire equity interest in the Target, and the Sale Loan at an aggregate cash consideration of HK$60 million.

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. By virtue of the relationship between the Vendor and Mr. Wang, the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. The Agreement and the transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders by way of poll at the EGM.

The Independent Board Committee has been established to give a recommendation to the Independent Shareholders on the terms of the Agreement and the transactions contemplated thereunder. Gram Capital has been appointed as the independent financial adviser to advice the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among other things, details of the Agreement and the transactions contemplated thereunder, financial information of the Group and the Target Group, the unaudited pro forma financial information of the Group assuming Completion, the advice of Gram Capital to the Independent Board Committee and the Independent Shareholders relating to the Acquisition, the recommendation of the Independent Board Committee to the Independent Shareholders relating to the Acquisition, the notice convening the EGM together with the form of proxy.

THE AGREEMENT

Date:

19 August 2014

Parties:

(i) Tack Fiori International Group Limited (a company incorporated in the BVI with limited liability and a direct wholly-owned subsidiary of the Company), being the Purchaser; and

(ii) Mr. Wong Lik Ping, being the Vendor.

The Vendor is the father of Mr. Wang who is an executive Director and the Chairman of the Company and a Substantial Shareholder holding 604,610,860 Shares, representing approximately 28.19% of the existing issued share capital of the Company as at the Latest Practicable Date. The Vendor is regarded as a connected person of the Company under Chapter 14A of the Listing Rules.

Assets to be acquired:

Pursuant to the terms of the Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Share, representing the entire equity interest in the Target, and the Sale Loan. Details of the Target are set out in the section headed "Information about the Target Group" below.

Consideration:

The Consideration of HK$60 million was agreed by the Purchaser and the Vendor after arm's length negotiations taking into account the unaudited consolidated net asset value of the Target Group as at 30 June 2014, the value of the Sale Loan as at 30 June 2014, and the historical financial performance and future prospects of the Target Group. The Consideration shall be satisfied by the Purchaser in cash within 30 days from Completion.

The Company intends to fund the Consideration by the Group's internal resources.

Conditions:

Completion is subject to the fulfilment of the following conditions:

(i) the Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders at the EGM;

(ii) the Company having obtained the clearance from the Stock Exchange of the announcement and the circular in relation to the Agreement and the transactions contemplated thereunder;

(iii) the Purchaser having received and being satisfied with the legal opinion issued by its PRC legal adviser confirming that (a) BJ Xinzhitang has been validly established under the laws of the PRC; (b) the operation and business of BJ Xinzhitang complies with the relevant PRC laws and regulations; (c) BJ Xinzhitang has obtained all licenses, permits or consents from the relevant PRC government authorities necessary for its business and operations; (d) BJ Xinzhitang is entitled to use the leased office premise during the term of the lease contract; and (e) the Acquisition does not require approval from the relevant PRC government authorities and does not violate applicable PRC laws and regulations;

(iv) the Purchaser being satisfied with the results of a due diligence review (including legal, financial, business or any other relevant matters) on the Target Group;

(v) the Purchaser being satisfied that each of the warranties given by the Vendor being true and accurate in all material respects and not misleading as at the date of the Agreement and remaining true and accurate in all material respects and not misleading prior to Completion; and

(vi) there having been no material adverse change to the Target Group since the date of the Agreement until Completion.

In the event that the above conditions (other than conditions in (i) and (ii) above) are not fulfilled within six months from the date of the Agreement (or such other date that may be agreed by the Purchaser in writing), the Agreement shall lapse. As at the Latest Practicable Date, condition (ii) had been fulfilled.

Completion:

Completion shall take place on the same day as the fulfillment of the last of the conditions above.

Upon Completion, the Target shall become a wholly-owned subsidiary of the Company and the financial statements of the Target Group shall be consolidated into the Group after Completion.

INFORMATION ABOUT THE TARGET GROUP

The Target is a company incorporated in the BVI which is wholly-owned by the Vendor. The Target is an investment holding company and its principal asset is the entire equity interest in BJ Xinzhitang. BJ Xinzhitang is a company established in the PRC and is principally engaged in the business of development and sales of education software products and provision of technical support services in the PRC. The original investment cost for the Target Group paid by the Vendor was US$3 million (equivalent to approximately HK$23.3 million), representing the registered and paid-up capital of BJ Xinzhitang. At present, the Target Group had an office located in Beijing, the PRC.

Core business

BJ Xinzhitang is principally engaged in the business of development and sales of education software products and provision of technical support services.

Development and sales of education software products

BJ Xinzhitang develops and promotes education software products under the names of 劍橋少兒英語多媒體教學輔助系統 (Cambridge Young Learners English Multimedia Teaching System) and 劍橋少兒英語考級全接觸 (Cambridge Young Learners English Examination Centre) (collectively, the "**English Programs**") and 電子商務系列實踐模擬系統軟件 (E-commerce Series Practice Simulation System Software) (the "**E-commerce Program**").

On 15 May 2008, BJ Xinzhitang obtained authorisation from 教育部考試中心中英教育測量交流中心 (Sino-British Academic Exchange Centre on Education Measurement, the NEEA) ("**SBAEC**") to develop the English Programs based on the learning materials compiled by it. The English Programs are interactive English educational software products for children and youngsters in the PRC which are designed as preparation materials for children who wish to take the Cambridge Young Learners English examinations. Cambridge Young Learners English examinations in the PRC are administered by 劍橋大學考試委員會 (University of Cambridge Local Examinations Syndicate) and the NEEA. The Cambridge Young Learners English examinations are targeted to children of aged 5 to 12 and are available at three levels. In these examinations, children are being tested under major aspects including reading, writing, listening and speaking. According to the data published in the website of the NEEA, the Cambridge Young Learners English examinations are currently held in over 55 countries. The Cambridge Young Learners English examinations were introduced to the PRC in 1996 and since then, the accumulated attendances to such examinations are approximately 1.5 million and attendances for the training courses of such examinations are approximately 10 million.

The English Programs not only serve to complement the Cambridge Young Learners English examinations, but are also developed as an education tools to facilitate children and youngsters to learn English, although the English Programs are not pre-requisite for taking the Cambridge Young Learners English examinations.

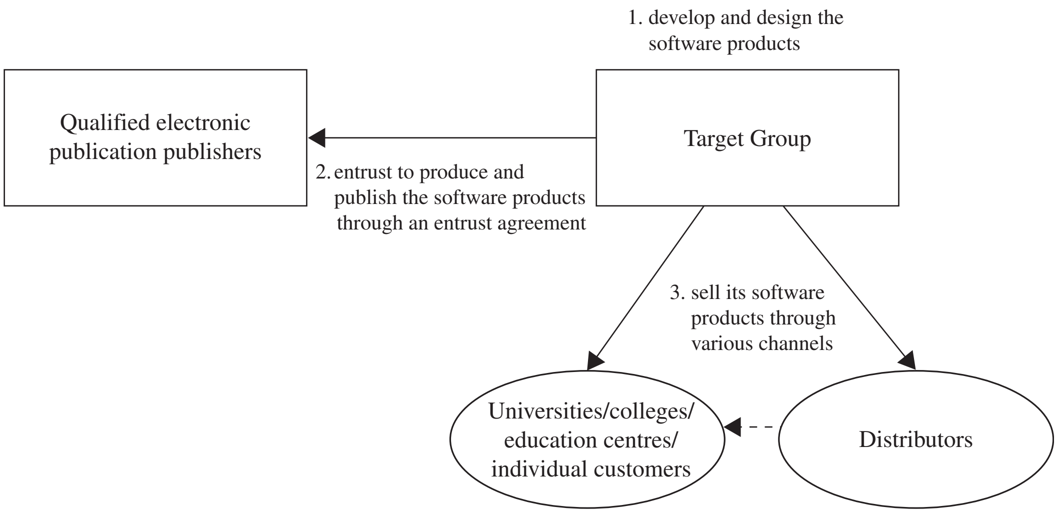
BJ Xinzhitang also develops, designs and sells the E-commerce Program to facilitate users to obtain the 電子商務認證證書 (Electronic Commerce Certificate) under the 國際電子商務培訓認證項目 (International E-Commerce Engineer Training & Certificate Item) ("**IECE Item**") issued by 中國電子商務協會 (China Electronic Commerce Association ("**CECA**"). BJ Xinzhitang has been designated by CECA as a strategic partner to enhance the profile of the IECE Item since 2008. The E-commerce Program provides users with learning materials on parts of the IECE Item. Users of the E-commerce Program are required to follow specific requirements and guidelines of the IECE Item if they wish to obtain the Electronic Commerce Certificate. According to the website of the CECA, the Electronic Commerce Certificate is recognised by more than 1,000 companies registered as members of the CECA.

Provision of technical support services

BJ Xinzhitang designs specific software products based on the English Programs or the E-commerce Program according to its clients' requests. Technical assistance is provided by BJ Xinzhitang to the customers on installation of such customised software products and on integration of such software products with the customers' hardware systems. BJ Xinzhitang also provides training on the use of such software products and, when necessary, after-sale services on a case-by-case basis.

Business model

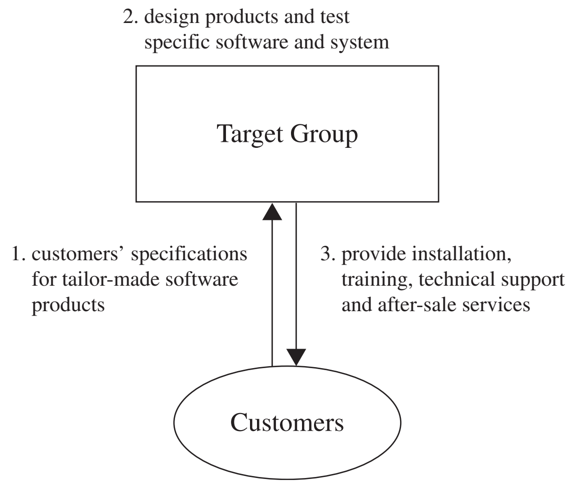
Development and sales of education software products



Under the relevant PRC laws, electronic publications can only be published by licensed publishers. According to the Catalogue of Industries for Guiding Foreign Investment (2011 revision) promulgated by the Ministry of Commerce and the State Development and Reform Commission in the PRC, foreign investment enterprises are prohibited from engaging in the business of electronic publication. BJ Xinzhitang, being a wholly-foreign owned enterprise, is not qualified to apply for the license of electronic publication under the existing PRC laws. Accordingly, BJ Xinzhitang and 西安交通大學出版社 (Xi'an Jiaotong University Press) ("**XJU Press**") entered into an entrust agreement pursuant to which BJ Xinzhitang entrusted XJU Press to produce and publish the software products designed and developed by BJ Xinzhitang. Pursuant to the entrust agreement, XJU Press shall produce the English Programs and E-commerce Program at an agreed fee per copy, which was determined after arm's length negotiations between the parties to the entrust agreement. XJU Press would first propose a fee to BJ Xinzhitang and the management of BJ Xinzhitang would then consider such fee with reference to the product quality, the stability of production and the production cost of printed publication. BJ Xinzhitang would sell the relevant software products to its customers via its own sales channels. To the best knowledge of the directors of BJ Xinzhitang, it is not uncommon in the PRC for an enterprise to entrust a qualified publisher to conduct the electronic publication.

The entrust agreement between BJ Xinzhitang and XJU Press will expire on 31 December 2016. BJ Xinzhitang intends to negotiate renewal of the entrust agreement with XJU Press in 2015. In the event that difficulties are encountered during the negotiation process with XJU Press, BJ Xinzhitang will negotiate with other licensed publishers to entrust the production and publication of its products under an arrangement similar to that with XJU Press. Based on the information available on the website of 中華人民共和國國家新聞出版廣電總局 (State Administration of Press, Publication, Radio, Film and Television of the PRC), there are currently 297 business units with the capacity to publish electronic publications in the PRC. In view of the current relationship with XJU Press, the directors of BJ Xinzhitang believe that there are no material difficulties in renewing the existing entrust agreement.

Provision of technical support services



Research and development

The research and development department is responsible for design and development of the English Programs and E-commerce Program. As at the Latest Practicable Date, the Target Group had six professional staff in its research and development team. The research and development team is mainly responsible for (i) research of educational material to be included in the English Programs and the E-commerce Program through learning material compiled by SBAEC and the IECE Item respectively; and (ii) design and development of the software interface into a user-friendly program through computer software. In addition, the research and development team also focuses on updating its software products based on renewed published educational materials.

Sales and marketing

The target customers of BJ Xinzhitang are distributors, universities, colleges, education centres and students. The major sales channels of the English Programs and E-commerce Program are through distributors, universities and education centres. Although students are the end users of the English Programs and E-commerce Program, the orders from students are mainly placed through universities, colleges and education centres. As advised by the Vendor, most of BJ Xinzhitang's customers are located in Beijing, Shanghai, Shengyang, Zhengzhou, Guangxi, Hanzhou, Anhui, Jiangxi and Xi'an. The customers for the provision of technical support services include universities, colleges, education centres and individual customers.

The customer services department is responsible for (i) handling customers' enquiries received through telephone and/or made in person; and (ii) supporting the sales and marketing and technical support department. The sales and marketing and technical support department is responsible for handling customer orders, arranging product deliveries, providing technical support and training to customers and coordinating marketing activities. BJ Xinzhitang promotes its products and services to potential customers mainly through (i) attending education exhibitions; (ii) assisting in organising English debate contests and English speech competitions; and (iii) attending relevant education products seminars.

Set out below are the number of customers for the English Programs, the E-commerce Program and provision of technical support services for the three financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014.

	Year ended 31 December			Six months ended 30 June
	2011	**2012**	**2013**	**2014**
English Programs	22	7	6	3
E-commerce Program	49	47	26	12
Technical support services	58	34	53	67

The number of customers for the English Programs decreased from 22 to 7 for the year ended 31 December 2012 as compared to the previous year, which was mainly due to the change of focus in types of customers from individuals to distributors, universities, colleges and bookstores. In March 2014, BJ Xinzhitang entered into an exclusive distribution agreement with a distributor for the sales of the English Programs. Such distribution agreement covers the period from 21 March 2014 to 31 December 2014 and includes terms such as the agreed unit price of the products, exclusivity, sales target and payment terms. The sales generated from the exclusive distribution agreement represented approximately 70.0% of BJ Xinzhitang's sales of the English Programs for the six months ended 30 June 2014, resulting in a further decrease in number of customers for the English Programs. As the distributor was unable to reach certain sales target set out in the exclusive distribution agreement, the agreement was revised to a non-exclusive basis in May 2014 so that BJ Xinzhitang can sell its products to other distributors. As at the Latest Practicable Date, BJ Xinzhitang had not entered into any exclusive distribution agreement with any distributors. The directors of BJ Xinzhitang believe this strategy would promote sustainable sales growth given that it would broaden BJ Xinzhitang's customer base. The management of BJ Xinzhitang and the sales and marketing and technical support department will continue to promote its products and services to potential customers through the network of the management of BJ Xinzhitang with 教育部考試中心劍橋英語培訓機構校長聯席會 (Joint Cambridge English Training Institute Principals Advisory Committee of the NEEA) and 國際電子商務培訓認證管理辦公室 (International E-Commerce Engineer Training & Certificate Management Office of CECA). Please refer to the paragraph headed "Management and staff" below for more details.

The number of customers for the E-commerce Program decreased from 47 to 26 for the year ended 31 December 2013 as compared to the previous year. Such decrease was mainly attributable to the change of focus in types of customers from individuals to universities, colleges and bookstores. Nonetheless, turnover generated from sales of the E-commerce Program increased by approximately 16.1% for the year ended 31 December 2013 as compared to the previous year.

The percentage of sales of the English Programs and the E-commerce Program and the provision of technical support services to the respective top 5 customers of BJ Xinzhitang for the three financial years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2014 was as follows:

	Year ended 31 December			Six months ended 30 June
	2011	**2012**	**2013**	**2014**
English Programs	87.08%	91.33%	99.98%	100.00%
E-commerce Program	46.39%	44.99%	41.78%	98.12%
Technical support services	74.61%	82.15%	77.11%	53.69%

Revenue and receivables model

Development and sales of education software products

The revenue from development and sales of education software products is recognised upon the delivery of the products to customers including individuals, distributors, universities, colleges and bookstores. Payment terms are either cash on delivery or on credit up to 180 days. BJ Xinzhitang does not sell its products to customers with unsettled receivables. For the three years ended 31 December 2013 and six months ended 30 June 2014, BJ Xinzhitang had no provision for bad and doubtful debts.

BJ Xinzhitang has entered into sales contracts for a term ranging from one to two years with several customers in relation to the sales of the English Programs and the E-commerce Program. These sales contracts set out details such as the agreed unit price of the products, quantity of products and payment terms. As at the Latest Practicable Date, BJ Xinzhitang had entered into 11 sales contracts, seven of which are automatically renewable for one year upon each expiry date thereafter until it is terminated. The Directors believe such contracts can provide BJ Xinzhitang with a long-term customer base and stable sales channel.

Provision of technical support services

For provision of technical support services, BJ Xinzhitang enters into service contracts with its customers on a project basis. The service contracts set out in detail the scope of services required, the period when such services are required, the related fee payable to BJ Xinzhitang and the payment terms.

The fee for each engagement of the technical support services is agreed between BJ Xinzhitang and its customers on a case-by-case basis. BJ Xinzhitang usually charges a fixed fee based on the estimated time/cost to be spent or number of trainings required by the customer. The agreed fee is usually payable by stage payments based on milestones agreed with the customers. The engagements are normally completed in a short period of time and the revenue is recognised when the services are rendered. BJ Xinzhitang will provide after-sale services on a case-by-case basis if necessary. The credit terms of trade receivables depend on negotiations between BJ Xinzhitang and its customers and normally range from 30 to 120 days. For the three years ended 31 December 2013 and six months ended 30 June 2014, the Target Group had no provision for bad and doubtful debts.

Intellectual properties

The Target Group's policies in respect of protection of its intellectual properties include:

- completing all appropriate registration of its products and intellectual properties in accordance with application rules and regulations in the PRC;

- incorporating anti-counterfeiting features into its product packaging such as QR code recognition technology which enables users to input a code for authenticity verification of the software products. The directors of the Target Group believe that such features would increase the cost of counterfeiting thus discourage the production of counterfeit products;

- including non-disclosure clauses in the employment contracts with its employees to prevent leakage of the product information; and

- closely monitoring the existence of counterfeit products in the market and taking necessary legal actions if appropriate.

As at the Latest Practicable Date, the Target Group had registered all of its products with the relevant copyright registration administration organisation in the PRC and obtained registration certificates thereof. The Target Group had also obtained seven registration trademarks in the PRC for its logo and certain cartoon figures designed by it and used in the English Programs.

As at the Latest Practicable Date, BJ Xinzhitang was the registered owner of the following trademarks:

Trademark	**Place of registration**	**Class**	**Registration number**	**Registration date**	**Expiry date**
新知堂	PRC	16 *(Note 1)*	3514209	21 May 2005	20 May 2015
	PRC	41 *(Note 2)*	3514210	21 May 2005	20 May 2015
	PRC	42 *(Note 3)*	3514207	28 March 2005	27 March 2015
	PRC	9 *(Note 4)*	5958811	7 February 2010	6 February 2020
	PRC	16 *(Note 5)*	5958812	14 December 2009	13 December 2019
	PRC	18 *(Note 6)*	5958813	21 February 2010	20 February 2020
	PRC	41 *(Note 7)*	5958810	28 April 2010	27 April 2020

Notes:

1. Books, teaching wall maps, stationary covers and prospectuses.

2. Publication of electronic books and journals on-line, publication of books and video tapes.

3. Research and development (for third parties), hosting computer sites (web sites), graphic arts designing, computer programming, computer software design, updating of computer software, creating and maintaining web sites for third parties, legal services, rental of computer software and updating of computer software.

4. Electronic notice boards, neon lamps, lamp boxes, animated cartoons and photographic slides.

5. Printed goods, printed publications, paper, office supplies (except furniture), books, paper or plastic packaging bags (envelopes, pouches).

6. School bags, bags, satchels and umbrellas.

7. Academies (education), educational services, instruction services, organization of exhibitions for cultural or educational purposes, publication of texts (other than publicity texts), publication of books, providing online electronic publications (not downloadable), production of radio and television programmes and videotape film production.

Apart from the above, the Target Group did not have any application or registration of any patents since the design and production of the educational products did not involve technical know-how.

Management and staff

As at the Latest Practicable Date, the Target Group had a total of 24 employees, the breakdown of which is set out as follows:

	Number of employees
Management	3
Customer services	3
Finance and administration	2
Research and development	6
Sales and marketing and technical support	10
Total	**24**

The employees of the Target Group are remunerated by way of fixed salary. Remuneration packages for employees are reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

The management of Target Group comprised:

- Mr. Yang Wei, who joined BJ Xinzhitang in November 2007, is the general manager of BJ Xinzhitang. He has been engaged in education administration and management, corporate management, research and development and promotion of English education systems for school-aged children for over 20 years. Currently, he serves as the deputy chairman of Joint Cambridge English Training Institute Principals Advisory Committee of the NEEA and a deputy officer of International E-Commerce Engineer Training & Certificate Management Office of CECA.

- Ms. Xing Rongyan, graduated with a Bachelor's degree of Arts from the Tianjin Normal University, PRC, joined BJ Xinzhitang in November 2007. She is the deputy general manager of BJ Xinzhitang. She has served as a manager of administration, marketing and network departments of certain state-owned enterprises and high-tech enterprises, and worked for certain educational and high-tech enterprises for over 14 years before joining BJ Xinzhitang. She is familiar with the relevant laws and regulations of high-tech enterprises in the PRC, and has extensive experience and resources in promotion and development of educational software products.

- Mr. Guan Shanwei, graduated with a Master degree in management from Beijing University of Agricultural Engineering (now known as China Agricultural University). He joined BJ Xinzhitang in November 2007 and is the general manager assistant of BJ Xinzhitang. He is also an executive officer of International E-Commerce Engineer Training & Certificate Management Office of CECA. He served as a project manager specialised in search engine, internet, e-commerce and education and training sector for over 15 years in the PRC and has solid experience in e-commerce and education industry.

Competition

The Target Group faces direct competition from other companies which design and develop educational software complementing the Cambridge Young Learners English examinations. To the best of the knowledge of the directors of the Target, ATA INC., a company with American Depository Receipt listed on NASDAQ, is engaged in the provision of computer-based testing series, test-based educational services, test preparation and training solutions and other related services in the PRC and is considered as a direct competitor of the Target Group. According to the website of ATA INC., it operates an online interactive English educational program, namely "Cambridge365", which serves as study material for the Cambridge Young Learners English examinations. It is headquartered in Beijing with 13 offices across the PRC.

As the English Programs designed by the Target Group are not pre-requisite for candidates who wish to take the Cambridge Young Learners English examinations, the Target Group also faces competition, to a lesser extent, from publishers of other English learning programs which are targeted at children and youngsters. To the best of the knowledge of the Target's directors, there are various English learning programs available in the market such as Disney English, Poo Kids and Kid Castle. There are also various online and offline educational programs in the market as well as English learning centres and private English tutors.

The Directors consider that the Target Group has competitive edge in the educational software industry for the following reasons:

- the English Programs are designed based on the material compiled by SBAEC to complement the Cambridge Young Learners English examinations. These examinations are one of the most popular and well recognised language assessment programs with an established history in the PRC since 1996;

- the E-commerce Program is designed in collaboration with CECA; and

- the management of the Target Group has accumulated years of industry experience in developing and sales of educational software products which enables them to quickly respond to market changes and develop new products according to market demand.

Relevant PRC laws and regulations relating to the business of the Target Group

Policies relating to the PRC software products market

On 5 March 2009, the Ministry of Industry and Information Technology of the PRC issued 《軟件產品管理辦法》(Software Management Regulation) to enhance software product management and stimulate the development of software industry in the PRC. According to the Software Management Regulation, the production units must hold or be franchised or licensed the copyright of the software they produce and the production units or the developers may sell such software. Any qualified domestic software products registered and filed by their developers or production units are entitled to preferential treatments as out in the Encouraging Policy (as defined below). The registration of software products under the Software Management Regulation is valid for five years and can be renewed upon expiration.

On 24 June 2000, the State Council issued 《鼓勵軟件產業和集成電路產業發展的若干政策》(Certain Policies on Encouraging the Development of Software and Integrated Circuit Industries). On 28 January 2011, the State Council issued 《關於進一步鼓勵軟件產業和集成電路產業發展的若干政策》 (Certain Policies on Further Encouraging the Development of Software and Integrated Circuit Industries) (collectively, the "**Encouraging Policy**") to further optimise the development environment of software and integrated circuit industries, improve the quality and level of industry development and strengthen the international competitiveness of the PRC information technology industry. According to the Encouraging Policy, domestic software enterprises are entitled to a number of preferential treatments, including relevant preferential taxation policies, investment and financing policies, and research and development policies. The PRC government also encourages software enterprises to conduct copyright registration, implement intellectual property rights protection measures and combat infringement of intellectual property rights.

The PRC government also issued a series of encouraging provisions to implement the Encouraging Policy, such as《關於軟件產品增值稅政策的通知》(Notice Relating to the Software Product Value-added Tax Policy) issued by the Ministry of Finance and the State Administration of Taxation on 13 October 2011. According to such notice, software products registered with the Software Product Registration Certificate or Computer Software Copyright Registration Certificate are entitled to enjoy preferential policies related to value added tax after receiving the approval of the competent taxation authorities.

BJ Xinzhitang is a development unit of software products with the ownership of software copyrights and has obtained relevant Computer Software Copyright Registration Certificates. It is enjoying the aforesaid preferential policies related to value added tax according to the approval of the competent taxation authority.

Regulations relating to software protection

In the PRC, copyright of computer software is protected by《計算機軟件保護條例》(Regulations for the Protection of Computer Software), which was implemented on 1 January 2002 and subsequently revised in 2013, and《計算機軟件著作權登記辦法》(Management for Computer Software Copyright Registration) implemented on 20 February 2002. The Regulations for the Protection of Computer Software protect copyright of software developed by Chinese citizens and units, regardless of where and whether it has been published. According to these software protection regulations, computer software refers to computer programmes and its related documentation.

The computer software to be protected under these software protection regulations must be independently developed by the developer and must be in a physical form or attached to physical goods. These software protection regulations do not extend to encompass any ideas, concept, discoveries, principles, algorithms, processing methods and operations used in the development of software.

Software copyrights have to be registered with the relevant copyright registration administration organisation, and the registration certificate shall be the preliminary evidence for such registration. Under these software protection regulations, software copyright holder enjoys certain rights such as rights of publication, authorship, amendment, replication, reproduction, distribution, rental, broadcast and translation of the software developed by it. The copyright registration is valid for the period commencing from the first publication of the software and ending on 31 December of the 50th year therefrom.

Any infringement to the registered software copyrights shall be enforced by cessation of the infringement, elimination of the effects, public apology, compensation for losses and other civil responsibilities. Software copyright disputes may be mediated. A software copyright contract dispute may be applied to the arbitration organisation for mediation according to the arbitration clause in the contract or a written arbitration agreement reached afterwards. If there is no arbitration clause in the contract, or the parties have not reached any written arbitration agreement afterwards, the disputes can be directly dealt with in the People's Court in the PRC.

BJ Xinzhitang's relevant software products have been registered with the relevant copyright registration administration, organisation and obtained the Computer Software Copyright Registration Certificate and are legally protected under the aforesaid software protection regulations.

Regulations relating to the electronic publications

On 17 March 2008, General Administration of Press and Publication of the PRC ("**GAPP**", now known as State Administration of Press, Publication, Radio, Film and Television of the PRC) issued 《電子出版物出版管理規定》(Administrative Regulations on Publishing of Electronic Publication) which was implemented on 15 April 2008. These regulations shall apply to the production, publishing and import of electronic publications in the PRC. The term "electronic publication" used in these regulations refers to a form of reproducible mass information dissemination media by which knowledgeable and thoughtful information are compiled and processed by means of digital coding, stored on magnetic, optical or electrical media, and read and used by electronic reading, display and broadcasting equipment. Types of media used include CD-ROM, DVD-ROM, written-once disc (CD-R, DVD-R, etc.), recordable compact disc (CD-RW, DVD-RW, etc.), floppy disk, hard disk, integrated circuit card, as well as other types of media approved by GAPP. The PRC government implements a licensing system regarding the publishing of electronic publications. Any units or individuals shall not engage in electronic publication activities without any license. In addition, the replication of electronic publication shall be conducted by person or entity approved by GAPP.

BJ Xinzhitang's software products related to the English Programs and E-commerce Program are deemed as electronic publications according to the aforesaid regulations. BJ Xinzhitang should obtain license of electronic publication publishing or entrust qualified electronic publication publishers to engage in publishing and replicating of such electronic publications. Currently, BJ Xinzhitang, being a wholly-foreign owned enterprise, is not qualified to apply for the license under the existing PRC laws, but has entrusted qualified electronic publication publisher (i.e. XJU Press) to conduct such publishing and replicating through an entrust agreement. XJU Press is responsible for obtaining the permit to publish such electronic publications and conduct the replication of electronic publications.

Financial information

Set out below is the audited consolidated financial information of the Target Group prepared under the Hong Kong Financial Reporting Standards for each of the two financial years ended 31 December 2012 and 2013 as extracted from the accountants' report on the Target Group set out in Appendix II to this circular:

	For the year ended 31 December	
	2012	**2013**
	(HK$'000)	*(HK$'000)*
Profit before taxation	2,846	6,497
Profit after taxation	2,474	5,666

The audited consolidated net asset value of the Target Group as at 30 June 2014 amounted to approximately HK$28.9 million.

As at the date of the Agreement, the Sale Loan amounted to approximately HK$24.4 million (comprising a US$ loan of approximately US$3.0 million and a HK$ loan of approximately HK$1.0 million).

REASONS FOR AND BENEFIT OF THE ACQUISITION

The Group is principally engaged in apparel retail business in the PRC and securities trading and investment in Hong Kong.

As disclosed in the annual report of the Company for the year ended 31 March 2014, apparel retail business recorded a loss of HK$63.87 million as compared to HK$58.34 million of the previous year, representing a loss increase of approximately 9.48% for the year ended 31 March 2014. Such increase in loss was primarily related to the impairment on property, plant and equipment and provision for onerous lease contracts of apparel retail shops recorded during the year ended 31 March 2014. With a view to curbing losses, the Board intended to close down those loss-making shops and retail outlets and develop e-commerce as an alternative sales channel for the Group's apparel business. Since 1 April 2014, the Group has closed down 30 out of 35 shops and retail outlets in the PRC. In addition to the above, the Board has been identifying opportunities to expand the Group's business portfolio and increase the income stream of the Group.

The principal asset of the Target is its entire equity interest in BJ Xinzhitang, which is principally engaged in the business of development and sales of education software products in the PRC. According to reports published on the website of 中華人民共和國教育部 (Ministry of Education of the PRC), the national expenditure on education program in the PRC was approximately RMB2,223.6 billion (equivalent to approximately HK$2,779.5 billion) in 2012 as compared to approximately RMB1,045.0 billion (equivalent to approximately HK$1,306.3 billion) in 2008, representing a compound annual growth rate of approximately 20.8% from

2008 to 2012. The national expenditure on education program in the PRC in 2012 accounted for approximately 4.28% of the gross domestic product of the PRC and represented an increase by approximately 0.80 percentage point as compared to approximately 3.48% in 2008.

In view of the growing prospects in the education industry of the PRC, the Directors believe that BJ Xinzhitang would be able to take advantage of such industry growth and enhance its profitability. The Directors also consider that there are various competitive advantages of the Target Group, including (i) the industry expertise and experience of its management; (ii) secured and stable strategic business partners, such as XJU Press and CECA; (iii) good customers relationship with various major distributors, universities, colleges, bookstores and education centres; (iv) low production cost for its products; and (v) its profitability for the three years ended 31 December 2013.

The Directors acknowledge that there are various business risks pertaining to the Target Group's business of development and sales of education software products in the PRC (as detailed in the section headed "Risk factors" below), which are different from those associated with the Group's existing apparel retail business. Having balanced the various business risks associated with the Target Group's business and the growth prospects and competitive advantages of the Target Group as mentioned above, the Directors believe that the Acquisition, if materialises, provides an opportunity for the Group to diversify into a profitable business with growth prospects and build up a new revenue stream.

Upon Completion, (i) Mr. Wang Liang and Mr. Huang Limin, who are executive Directors, will oversee the operation of Target Group; and (ii) the existing management team of the Target Group (as disclosed in the paragraph headed "Management and staff" under the section headed "Information about the Target Group" above) will continue to manage the businesses of the Target Group. The Group will also consider to recruit experienced personnel to oversee the operation of the Target Group if necessary. In light of this, the Board believes that the Enlarged Group has the relevant expertise to manage the Target Group's businesses.

Having considered the above, the Directors are of the view that the terms of the Agreement are fair and reasonable and the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

RISK FACTORS

The following are certain risks related to the Target Group. Investors and potential investors of the Company are reminded that these risks are inter-related and may affect the operations and performance of the Enlarged Group.

Change of technology

The computer software industry is characterised by rapid technology advancements. There is no assurance that there will be no impact on the market position of the Target Group's existing products because of new and emerging technologies. As such, in order to respond to technology developments and improve its product quality, the Target Group will continue to devote more resources in research and development so as to maintain its competitiveness in the industry.

Services defects

Although the Target Group provides assistance to its customers on installation of software products in relation to the English Programs and the E-commerce Program and basic technical support on the customers' hardware, the usage of the software products depends on the customers' hardware. There is no assurance that the customers would maintain an appropriate and quality hardware, which might in turn affect the usage of the Target Group's products.

Intellectual property rights

The Target Group's products contain original designs and creations and these intellectual properties are subject to the risks of infringement. Although the Target Group has implemented policies to protect its intellectual property rights, it is unable to prevent any infringement of such rights or the production of pirated products.

Reliance on major customers

The sales of the Target Group have been concentrated on several major customers. For the year ended 31 December 2013, the Target Group's top five largest customers for the English Programs, E-commerce Program and the stay provision of technical support services accounted for approximately 99.98%, 41.78% and 77.11% of the total revenue for the respective products/services. There is no assurance that the Target Group will be able to maintain its relationship with these customers and to continue to secure orders from them in the future. The Target Group intends to expand its customer base through its own network and sales and marketing activities at various platforms, including but not limited to (i) attending education exhibitions; (ii) assisting in organising English debate contests and English speech competitions; and (iii) attending relevant education products seminars to reduce the risk of over-reliance on major customers.

Availability of substitutes

The demand for the Target Group's products is influenced by various factors including the availability of substitute products. Sustained availability of substitute products requires the Target Group to anticipate and respond quickly to changes by developing and introducing new and improved products in a timely and cost effective manner. Should the Target Group fail to anticipate and respond accordingly, the customers may reduce placing purchase orders and in which case the Target Group's business, operations and financial performance may be adversely affected.

Image of Cambridge Young Learners English

The Target Group's software products related to the English Programs are expected to be affected by the popularity of the Cambridge Young Learners English examinations in the PRC. Any events which may lead to the reduced popularity or affecting the image of Cambridge Young Learners English examinations may materially and adversely affect the Target Group's business, financial condition and results of operations. Nonetheless, the industry expertise and experience of the management of the Target Group in the development and sales of educational

English software products are not limited to the English Programs. The management of the Target Group believes that the Target Group is able to quickly respond to market changes and explore opportunities in other English education software products.

Reliance on single qualified publisher

At present, the Target Group produces and publishes its products through an entrust agreement with a qualified publisher (i.e. XJU Press) which shall expire on 31 December 2016. Although the Target Group has a stable relationship with XJU Press, there is no assurance that there will be renewal of the entrust agreement upon its expiry or the Target Group will be able to identify other qualified publisher to produce and publish its products.

Changes of relevant rules and regulations in the PRC

Although various laws and regulations governing economic matters have been promulgated and supplemented in the PRC since 1979, the PRC legal system is not very sophisticated and the newly promulgated laws and regulations may not be sufficient to cover all aspects of the economic activities in the PRC. In addition, many laws and regulations in the PRC are promulgated in broad principles and the PRC government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system is still developing, the promulgation of such new laws or refinement and modification of existing laws may affect foreign investors. There is no assurance that future changes in the legislations or the interpretation thereof will not have an adverse effect upon the Target Group.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target shall become an indirect wholly-owned subsidiary of the Company and the Target Group's accounts will be consolidated into the accounts of the Group.

Net assets

Set out in Appendix III to this circular is certain unaudited pro forma financial information of the Enlarged Group which illustrates the effect of Completion on the assets and liabilities of the Group, assuming that Completion had taken place on 31 March 2014.

As set out in the aforesaid appendix, the total assets of the Enlarged Group as at 31 March 2014 would increase from approximately HK$166.8 million to approximately HK$166.9 million as a result of the Acquisition, whereas the total liabilities of the Enlarged Group as at 31 March 2014 would increase from approximately HK$18.2 million to approximately HK$20.7 million as a result of the Acquisition. Accordingly, the net assets of the Enlarged Group as at 31 March 2014 would decrease from approximately HK$148.6 million to approximately HK$146.2 million, which is attributable to the expenses and fees incidental to the Acquisition of approximately HK$2.4 million.

Earnings

As set out in the accountants' report on the Target Group in Appendix II to this circular, the revenue and profit after tax of the Target Group was approximately HK$10.8 million and approximately HK$5.7 million respectively for the year ended 31 December 2013. On this basis, it is expected that the consolidation of the Target Group would have a positive impact on the Group's revenue and earnings after Completion.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. The Vendor, being an associate of Mr. Wang who is an executive Director, the Chairman of the Company and a Substantial Shareholder, is a connected person of the Company and thus the Acquisition also constitutes as a connected transaction of the Company under Chapter 14A of the Listing Rules.

The Agreement and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders by way of poll at the EGM. Together with his associates, Mr. Wang who controlled or were entitled to exercise control over the voting rights in respect of 604,610,860 Shares (representing approximately 28.19% of the issued share capital of the Company) as at the Latest Practicable Date are required to abstain from voting at the EGM.

As Mr. Wang has a material interest in the transactions contemplated under the Agreement by virtue of his relationship with the Vendor, Mr. Wang had abstained from voting on the relevant Board resolutions approving the transactions contemplated under the Agreement.

The Independent Board Committee has been constituted to give a recommendation to the Independent Shareholders on voting at the EGM. Gram Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

The EGM, the notice of which is set out on pages EGM-1 to EGM-2 of this circular, will be convened and held at 10:30 a.m. on Wednesday, 5 November 2014 at Lower Lobby, Plaza 3, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong for the Independent Shareholders to consider and, if thought fit, approve the Agreement. The voting at the EGM will be carried out by way of poll.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the appointed time for holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) if you so wish.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 25 of this circular which contains its advice to the Independent Shareholders in relation to the terms of the Agreement. Your attention is also drawn to the letter from Gram Capital set out on pages 26 to 36 of this circular which contains its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Agreement and the principal factors and reasons taken into account in arriving at its recommendations.

The Directors (including the independent non-executive Directors who have expressed their views on the transactions contemplated under the Agreement in this circular after taking into account the advice of Gram Capital) are of the opinion that (i) the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole even though it is not conducted in the ordinary and usual course of business of the Group, and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of EGM.

Yours faithfully
For and on behalf of the Board
Tack Fiori International Group Limited
Wang Liang
Chairman and Executive Director

TACK FIORI INTERNATIONAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 928)

16 October 2014

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN CHINA EDUCATION MEDIA LIMITED

We refer to the circular of the Company to the Shareholders dated 16 October 2014 (the "**Circular**") of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed by the Board as members to constitute the Independent Board Committee and to advise the Independent Shareholders in respect of the Acquisition. Gram Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the Acquisition is fair and reasonable as far as the Independent Shareholders are concerned and whether it is in the interests of the Company and the Shareholders as a whole. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 26 to 36 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 24 of the Circular.

Having considered the terms of the Agreement and the advice of Gram Capital, we consider (i) the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole even though it is not conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Dr. Leung Shiu Ki, Albert	Mr. Yau Yan Ming, Raymond	Mr. Lau Yu
Independent Non-Executive Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
173 Des Voeux Road Central
Hong Kong

16 October 2014

To: The independent board committee and the independent shareholders of Tack Fiori International Group Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN CHINA EDUCATION MEDIA LIMITED

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 16 October 2014 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 19 August 2014, the Purchaser, being a direct wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Share, representing the entire equity interest in the Target, and the Sale Loan at an aggregate cash consideration of HK$60 million.

With reference to the Board Letter, the Acquisition constitutes a major and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules respectively. The Agreement and the transactions contemplated thereunder are therefore subject to the approval of the Independent Shareholders by way of poll at the EGM.

The Independent Board Committee comprising Dr. Leung Shiu Ki, Albert, Mr. Yau Yan Ming, Raymond and Mr. Lau Yu (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Agreement and the transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

Mr. Graham Lam, under his previous employment, was responsible for an independent financial adviser engagement (the "**IFA Engagement**") with the Company (under the former name Tack Fat Group International Limited) on 4 November 2011 regarding a possible general offer (the "**Possible General Offer**"). On 29 November 2011, the Company announced its decision of not to proceed with the Possible General Offer. Accordingly, the IFA Engagement ended on even date. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

Besides that, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, 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. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular 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 Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/ arrangements or implied understanding with anyone concerning the Acquisition. 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.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, 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 Purchaser, the Vendor, the Target Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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 extracted 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 Acquisition, we have taken into consideration the following principal factors and reasons:

1. Background of the Acquisition

Business overview of the Group

As referred to in the Board Letter, the Group is principally engaged in apparel retail business in the PRC and securities trading and investment in Hong Kong.

Set out below are the audited consolidated financial results of the Group for the financial year ended 31 March 2013 (“**FY2012/13**”) and the financial year ended 31 March 2014 (“**FY2013/14**”) as extracted from the Company’s annual report for FY2013/14 (the “**2013/14 Annual Report**”):

	For FY2013/14	**For FY2012/13**	**Change from FY2012/13 to FY2013/14**
		(Restated)	
	HK$’000	*HK$’000*	*%*
Turnover	22,469	25,149	(10.66)
Gross profit	9,121	6,110	49.28
Loss from continuing operations	(70,570)	(109,837)	(35.75)

	As at 31 March 2014	**As at 31 March 2013**	**Change from 2013 to 2014**
		(Restated)	
	HK$’000	*HK$’000*	*%*
Bank balances and cash	134,515	52,257	157.41

The above table illustrated that the Group recorded a decrease in turnover of approximately 10.66% from FY2012/13 to FY2013/14. According to the 2013/14 Annual Report, all of the Group's turnover was generated from the apparel retail business, which also recorded a segment loss of approximately HK$63.87 million during the same said financial year under review. Despite that the Group recorded positive gross profit due to effective pricing strategies carried out in 2013, the Group's loss from continuing operations amounted to approximately HK$70.57 million in FY2013/14. Nevertheless, resulting from the favourable performance of the Group in the local stock market, the Group had been able to reduce its loss from continuing operations by approximately 35.75% from FY2012/13 to FY2013/14.

As being set forth in the 2013/14 Annual Report, the Group disposed of its entire equity interest in the subsidiaries engaged in (i) the luxury goods and accessories retail business; (ii) the salon and beauty services business; and (iii) the pharmacy and healthcare products retail business. The Directors considered that the aforesaid disposals would not only enable the Group to cease financing the loss making operations but allow the Company, following completion of the disposals, to use the financial resources of the Group which would otherwise be required in the discontinued operations for other business purposes. As also mentioned under the section headed "Reasons for and benefit of the Acquisition" in the Board Letter, the Board intended to close down the loss making shops and retail outlets of the apparel retail business gradually and eventually keep about five retail outlets, and develop e-commerce as alternative sales channel for the Group's apparel retail business.

Information on the Target Group

As extracted from the Board Letter, the Target is an investment holding company incorporated in the BVI with principal asset being its entire equity interest in BJ Xinzhitang.

As also extracted from the Board Letter, BJ Xinzhitang is a company established in the PRC and is principally engaged in the business of development and sales of education software products and provision of technical support services in the PRC. Details regarding the core business, business model, research and development, sales and marketing, revenue and receivables models, intellectual properties and management and staff of BJ Xinzhitang are included under the section headed "Information about the Target Group" in the Board Letter.

For our due diligence purpose, we have (i) discussed with the Directors with regard to the existing operations of BJ Xinzhitang; and (ii) obtained the background information of the management of BJ Xinzhitang, namely Mr. Yang Wei ("**Mr. Yang**"), Ms. Xing Rongyan ("**Ms. Xing**") and Mr. Guan Shanwei ("**Mr. Guan**") (for details please refer to the sub-section headed "Management and staff" in the Board Letter), and conducted an interview (the "**Interview**") with them with regard to their education background, past working experience and major job duties within BJ Xinzhitang. The Interview has enhanced our understanding on the existing operations (including the possible competitive advantages) of BJ Xinzhitang. Furthermore, based on the biography of those management and the Interview, we noted that (i) both of Ms. Xing and Mr. Guan have tertiary education background; (ii) each of Mr. Yang, Ms. Xing and Mr. Guan has extensive experience in the education industry of the PRC; and (iii) Mr. Yang is primarily responsible for the general business operations of BJ Xinzhitang; whereas Ms. Xing and Mr. Guan are mainly responsible for the legal aspect and the promotion and marketing function of BJ Xinzhitang, respectively.

Set out below is the audited consolidated financial information of the Target Group for the six months ended 30 June 2014 and the two years ended 31 December 2013 as extracted from the accountants' report on the Target Group as set out in Appendix II to the Circular:

	For the six months ended 30 June 2014	**For the year ended 31 December 2013**	**For the year ended 31 December 2012**	**Change from 2012 to 2013**
	HK$'000	*HK$'000*	*HK$'000*	*%*
Profit before taxation	7,572	6,497	2,846	128.29
Profit after taxation	6,510	5,666	2,474	129.02

We noticed from the above table that the Target Group enjoyed a significant jump of over 100% in profitability from 2012 to 2013. For the six months ended 30 June 2014, there had been a further substantial expansion in the Target Group's profitability, which according to the Directors was mainly attributable to the increase in revenue generated from sale of products.

Moreover, based on the accountants' report on the Target Group, the audited consolidated net asset value of the Target Group as at 30 June 2014 amounted to approximately HK$28.9 million.

Information on the education industry of the PRC

According to the Statistical Communiqué of the PRC on 2013 National Economic and Social Development published by the Nation Bureau of Statistics of China, senior secondary schools had approximately 24.36 million enrolled students, including approximately 8.23 million new entrants and approximately 7.99 million graduates. Students enrolled in junior secondary schools totaled approximately 44.40 million, including approximately 14.96 million new entrants and approximately 15.62 million graduates. The PRC had a primary education enrollment of approximately 93.61 million students, including approximately 16.95 million new entrants and approximately 15.81 million graduates.

On the other hand, according to the latest reports published on the website of the Ministry of Education of the PRC (the "**Ministry of Education**"), the national expenditure on education program in the PRC was approximately RMB2,223.6 billion (equivalent to approximately HK$2,779.5 billion) in 2012 as compared to approximately RMB1,045.0 billion (equivalent to approximately HK$1,306.3 billion) in 2008, representing a compound annual growth rate of approximately 20.78% from 2008 to 2012. The national expenditure on education program in the PRC in 2012 accounted for approximately 4.28% of the gross domestic product of the PRC and represented an increase of approximately 0.80 percent point as compared to approximately 3.48% in 2008.

We also noted from a notice regarding 2014年教育信息化工作要點 (Principles of Implementing Information Technology in Educational Sector in 2014*) published by the Ministry of Education, the Ministry of Education has targeted to strengthen the development of information technology within the education sector of the PRC in the future by means of accelerating (i) the development of digital resources for pre-secondary education; and (ii) the utilisation of network learning space. Such policy movement may provide opportunities for expansion of the PRC market for education software, that is the main product of BJ Xinzhitang.

Given the above, the Directors considered that there would be growing prospects in the education industry of the PRC.

2. Reasons for the Acquisition

As referred to in the Board Letter and as further advised by the Directors, the apparel retail business of the Company recorded a loss of approximately HK$63.87 million for FY2013/14 as compared to approximately HK$58.34 million of the previous financial year, representing a loss increase of approximately 9.48%. Such increase in loss was primarily related to the impairment on property, plant and equipment and provision for onerous lease contracts of the apparel retail shops recorded during FY2013/14. With a view to curbing losses, the Board intended to close down the loss making shops and retail outlets gradually and eventually keep about five retail outlets, and develop e-commerce as alternative sales channel for the Group's apparel retail business. Since 1 April 2014 up to the Latest Practicable Date, the Group has closed down 30 out of 35 shops and retail outlets in the PRC. In addition to the above, the Board has been identifying opportunities to expand the Group's business portfolio and diversify its income stream.

In view of the growing prospects in the education industry of the PRC, the Directors expected that BJ Xinzhitang would be able to take advantage of such industry growth and enhance its profitability. The Directors also considered that there are various competitive advantages of the Target Group, including (i) the industry expertise and experience of its management; (ii) secured and stable strategic business partners, such as 西安交通大學出版社 (Xi'an Jiatong University Press*) and 中國電子商務協會 (China Electronic Commerce Association*); (iii) good customers relationship with various major distributors, universities, colleges, bookstores and education centres; (iv) low production cost for its products; and (v) its profitability for the three years ended 31 December 2013. For our due diligence purpose, we have requested the Company to provide us with various supporting documents with regard to the aforesaid possible competitive advantages of the Target Group, such as (i) the co-operation agreement entered into between 西安交通大學出版社 (Xi'an Jiatong University Press*) and BJ

* *for identification purpose only*

Xinzhitang; (ii) the notice issued by 中國電子商務協會 (China Electronic Commerce Association*) stating the selection of BJ Xinzhitang as strategic partner; and (iii) sales/distribution contracts for sales and distribution of the English Programs or Ecommerce Program entered into by the Target Group, and we have conducted the independent Interview.

Upon Completion, (i) Mr. Wang Liang and Mr. Huang Limin, both being executive Directors, will oversee the operations of Target Group; and (ii) the existing management team of the Target Group will continue to manage the business of the Target Group. The Group will also consider to recruit experienced personnel to oversee the operations of the Target Group if necessary. In light of this, the Board believes that the Enlarged Group has the relevant expertise to manage the Target Group's business.

In light of (i) the foregoing reasons for the Acquisition; (ii) the satisfactory financial performance of the Target Group as indicated by the significant jump in its profitability from 2012 to 2013; (iii) the operations of the Target Group with various competitive advantages as represented by the Directors and based on our understanding after the independent Interview; and (iv) the experienced management team of the Target Group, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole even though it is not conducted in the ordinary and usual course of business of the Group.

3. Principal terms of the Agreement

Date

19 August 2014

Parties

Tack Fiori International Group Limited (a direct wholly-owned subsidiary of the Company as the Purchaser) and Mr. Wong Lik Ping (as the Vendor)

Assets to be acquired

Pursuant to the Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Share, representing the entire equity interest in the Target, and the Sale Loan. As advised by the Directors, as at 30 June 2014, the Sale Loan amounted to approximately HK$24.4 million.

Consideration

The Consideration of HK$60 million has been agreed by the Purchaser and the Vendor after arm's length negotiations taking into account the unaudited consolidated net asset value of the Target Group as at 30 June 2014, the value of the Sale Loan as at 30 June 2014, and the historical financial performance and future prospects of the Target Group.

The Consideration shall be satisfied by the Purchaser in cash within 30 days from Completion and the Company intends to finance the Consideration by the Group's internal resources.

Basis of the Consideration

The Consideration represents a premium of approximately 12.57% over the sum of the unaudited consolidated net asset value of the Target Group and the value of the Sale Loan as at 30 June 2014 totaling HK$53.3 million.

We noted that commonly adopted valuation methods in the market include the dividend yield analysis as well as the trading multiples analysis. Therefore, in order to assess the fairness and reasonableness of the Consideration and to provide additional references to the Shareholders, we have tried to perform the aforesaid analyses for the Acquisition:

(i) Dividend yield analysis

Since dividend yield is calculated by the dividend per share divided by the price per share or the total annual dividend payments divided by the company's market capitalisation, assuming the number of shares is constant, dividend yield is suitable for measuring the earning on investment/ income return of a share. In this regard, the Target Group had not declared any dividend to its shareholders during the year ended 31 December 2013, and consequently there is no basis to assess the Consideration based on the historical dividend yield of the Target Group. Thus, the dividend yield analysis would be inapplicable and we have to rely on the trading multiples analysis as the alternative.

(ii) Trading multiples analysis

The trading multiples analysis includes the price to earnings ratio ("**PER**") and the price to book ratio ("**PBR**"). To perform this analysis, we have, taken into account that (i) the Company is a listed company in Hong Kong; and (ii) the principal place of business of the Target Group in the PRC, searched for companies listed on the Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange which are engaged in similar lines of business as the Target Group, i.e. development and promotion of education software in the PRC (the "**Market Comparable(s)**") for comparison. To the best of our knowledge and endeavour, there is only one such Market Comparable, being Shenzhen Kingsun Science and Technology Co., Ltd. (Stock code: SZ300235) ("**Shenzhen Kingsun**"). As a rather insoluble limitation of the trading multiples analysis that no two companies possess exactly the same business, operations and prospects, it should be noted that the business, operations and prospects of the Target Group are not exactly the same as Shenzhen Kingsun.

Based on our research, the principal business of Shenzhen Kingsun is to develop, design and sell primary and secondary schools synchronous educational software in the PRC. The products of Shenzhen Kingsun include students' learning supplementary software, web-based live educational products and teacher books software packages. As such, the principal business, target market and products of Shenzhen Kingsun are similar to those of the Target Group and we consider it to be a fair and representative Market Comparable.

The PER and PBR of Shenzhen Kingsun are approximately 139.97 times and 9.91 times respectively, based on (i) its closing price as at 19 August 2014, being the date of the Agreement; and (ii) its latest published annual report and interim report (as the case may be). Furthermore, the PER and PBR of Shenzhen Kingsun are approximately 121.34 times and 8.59 times respectively, based on (i) its average closing price for the one-month period immediately prior to and including 19 August 2014; and (ii) its latest published annual report and interim report (as the case may be).

Since the entire Consideration is for acquisition of both the Sale Share and the Sale Loan, we have deducted the amount of the Sale Loan from the Consideration when calculating the implied PER for the Acquisition. The implied PER for the Acquisition (after deduction of the Sale Loan of HK$24.4 million and based on the profit after taxation of the Target Group in 2013) is approximately 6.28 times and the implied PBR of the Consideration (based on the unaudited net asset value of the Target Group as at 30 June 2014) is approximately 2.07 times. Accordingly, the implied PER and PBR for the Acquisition are both substantially lower than the respective ratios of Shenzhen Kingsun (based on either the closing price of the share of Shenzhen Kingsun as at 19 August 2014 or the average closing price of the share of Shenzhen Kingsun for the month immediately prior to and including 19 August 2014), and thus the Consideration is not abnormal based on market comparison.

On the other hand, with reference to the Board Letter, to the best of the knowledge of the directors of the Target, ATA INC. ("**ATAI**"), a company with American Depository Receipt listed on NASDAQ, is engaged in the provision of computer-based testing series, test-based educational services, test preparation and training solutions and other related services in the PRC and is considered as a direct competitor of the Target Group. For reference purpose only, (a) the PER and PBR of ATAI are approximately 24.63 times and 1.84 times respectively, based on (i) its closing price as at 19 August 2014, being the date of the Agreement; and (ii) its latest published financial information; and (b) the PER and PBR of ATAI are approximately 24.06 times and 1.80 times respectively, based on (i) its average closing price for the one-month period immediately prior to and including 19 August 2014; and (ii) its latest published financial information.

Taking into account (i) the persistent loss making position of the Group in FY2012/13 and FY2013/14 and that the Group has the need to expand its business portfolio and diversify its income stream; (ii) the premium of the Consideration over the sum of the unaudited consolidated net asset value of the Target Group and the value of the Sale Loan as at 30 June 2014 but as balanced by the satisfactory financial performance of the Target Group (i.e. the substantial expansion in the profitability of the Target Group for the two years ended 31 December 2013 and the six months ended 30 June 2014) as well as the growing prospects in the education industry of the PRC; and (iii) as additional references, the implied PER and PBR for the Acquisition being both substantially lower than the respective ratios of Shenzhen Kingsun (which is a fair and representative Market Comparable), and thus the Consideration is not abnormal based on market comparison, we are of the opinion that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4. Possible financial effects of the Acquisition

As confirmed by the Directors, upon Completion, the Target shall become an indirect wholly-owned subsidiary of the Company and the financial statements of the Target Group shall be consolidated into the accounts of the Group after Completion.

Effect on net asset value

With reference to the unaudited pro forma financial information of the Enlarged Group as contained in Appendix III to the Circular (the "**Pro Forma Financial Information**"), the Acquisition would lead to a slight reduction in the net assets of the Enlarged Group.

Effect on working capital and earnings

With reference the Pro Forma Financial Information, the Acquisition would lead to a decrease in the working capital (as derived by current assets minus current liabilities) of the Enlarged Group. Nonetheless, we noted from Appendix I to the Circular that the Directors are of the opinion that, after taking into account the Group's existing bank balances and cash, the expected internally generated funds from ordinary business operations and the effect of the Acquisition, the Enlarged Group will have sufficient working capital to satisfy the present requirements and for at least 12 months from the date of publication of the Circular in the absence of unforeseen circumstances.

Furthermore, in view of the satisfactory financial performance of the Target Group together with the growing prospects in the education industry of the PRC, the Directors expected that the Enlarged Group would enjoy higher future earnings after the Acquisition.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Enlarged Group will be upon Completion.

5. Risk factors

We noted that there are certain risks related to the Acquisition and the Target Group. While we are unable to assess the likelihood of occurrence of those adverse situations, we would recommend the Independent Shareholders to read through the section headed "Risk factors" in the Board Letter thoroughly. Moreover, Independent Shareholders may wish to bear in mind those risk factors as highlighted under the said section in the Board Letter when considering the Acquisition based on their own subjective risk preference and risk tolerance level. However, as stated in the Board Letter, having balanced the various business risks associated with the Target Group's business and the growth prospects and competitive advantages of the Target Group, the Directors believe that the Acquisition, if materialises, provides an opportunity for the Group to diversify into a profitable business with growth prospects and build up a new revenue stream.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is in the interests of the Company and the Shareholders as a whole even though it is not conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

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

Note: Mr. Graham Lam is a licensed person registered with Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has around 20 years of experience in investment banking industry.

1. FINANCIAL INFORMATION OF THE GROUP

Details of the published financial information of the Group for each of the three years ended 31 March 2012, 2013 and 2014 are disclosed in the annual reports of the Company for the years ended 31 March 2012, 2013 and 2014 respectively. All of these financial statements (including auditor's reports) have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.tackfiori.com):

- annual report of the Company for the year ended 31 March 2012 published on 30 July 2012 (pages 30–115);
- annual report of the Company for the year ended 31 March 2013 published on 29 July 2013 (pages 31–105); and
- annual report of the Company for the year ended 31 March 2014 published on 25 July 2014 (pages 32–109).

2. INDEBTEDNESS STATEMENT

At the close of business on 31 August 2014, being the latest practicable date for preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group (including the Group and the Target Group) had outstanding amount due to a shareholder of the Target of approximately HK$24.43 million, which was non-guaranteed and unsecured.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have outstanding at the close of business on 31 August 2014 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 purchases commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the Group's existing bank balances and cash, the expected internally generated funds from ordinary business operations and the effect of the Acquisition, the Enlarged Group will have sufficient working capital to satisfy the present requirements and for at least the next 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2014, being the date to which the latest published audited financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Enlarged Group is principally engaged in (i) apparel retail business in the PRC; (ii) the business of development and sales of education software products and provision of technical support services in the PRC; and (iii) securities trading and investment in Hong Kong.

The apparel business continued to be a key focus area of the Group. However, as explained in the section headed "Reasons for and benefits of the Acquisition" in the letter from the Board contained in this circular, the Board intended to close down those loss-making shops and retail outlets and to develop e-commerce as an alternative sales channel for the Group's apparel business. In addition, as disclosed in the Company's announcement dated 25 March 2014 relating to the change in focus of sales channel of the Group and the results announcement of the Company for the year ended 31 March 2014 dated 27 June 2014, the Group intended to close down the loss-making shops and retail outlets gradually and eventually keep about five shops and retail outlets in Beijing, Xi'an and Shenzhen, the PRC. The closing down of the retail shops and outlets of the Group were in accordance with the aforesaid plan. The Group intends to maintain and improve the operations of the remaining five stores and at the same time continue to expand its e-commerce sales platform. The remaining five shops and retail outlets which are not expected to be closed in the near future accounted for approximately 16.2% and 3.9% of the Group's revenue and segment loss relating to the apparel retail business respectively for the year ended 31 March 2014. The Group has identified its target customers of apparel business as young adults through the feedback from frontline sales persons and the sales analysis of product categories. The Group has considered relocating the remaining five shops and retail outlets to areas closer to the identified target customers, for example, near colleges and universities. The estimated cost for each relocation is expected to be approximately RMB90,000 (equivalent to approximately HK$112,500) to approximately RMB120,000 (equivalent to approximately HK$150,000). The five shops and retail outlets not only offer retail sales channels but also act as physical showrooms and fitting rooms for customers who wish to make purchases online. The relocation of the five shops and retail outlets is not expected to materially change the product mix or pricing policies of the Group. However, new marketing activities and/or promotions will be implemented to facilitate the online sales of the Group. Such strategic relocation will be reviewed from time to time by the management of the Company. The Company has also identified top sales persons based on their past performance and intends to retain the best performing sales persons in the remaining five shops and retail outlets.

Previously, the Group had several branch offices across the provinces of the PRC. The closing of certain shops and retail outlets resulted in decreasing number of branch offices. The Group currently has one office located at Beijing. The centralised management can reduce the operating costs and improve the communication within the management of the Company. The Company is currently engaged in many marketing campaigns to enhance brand awareness of the Company's two apparel brands, namely "MUDD" and "XXEZZ", (collectively the "**Apparel Brands**") including (i) engaging in more promotional activities with shopping malls; (ii) holding of various sales promotions, such as the popular buy-one-get-one-free campaign; and (iii) further engagement with loyal customers by holding exclusive promotions on popular social media networks in the PRC and the Group's fans group on Weibo and Wechat.

The Company's business plan in developing e-commerce for the Group's apparel business is to replace part of its loss making shops and retail outlet sales channel. Based on operational experience of the apparel business of the Group, the Group observed that consumption habits of the target customers change gradually from offline to e-commerce model. The business model of the Company therefore shifts its focus to the development of e-commerce and adopts the "O2O" business structure (being the "offline experience to online transaction") based on the consumer behaviour for apparel products, while retaining a lesser number of physical stores to maintain offline shopping venue for customers.

The Group operates its e-commerce platform through the following channels:

(i) the Company's own websites (www.muddasia.com and xxezz.com.cn)

The Company operates websites for the Apparel Brands as its online sales channel and brand development platform. The online shops for the Apparel Brands have been in operation since late 2012. Product catalogues are made available on these websites and customers are able to purchase the products directly at the online stores. Since March 2014, the Group engaged an external consultant (the "**Consultant**") specialised in e-commerce operations to assist in formulating sales and marketing strategies for the Group's online business including brand developments, promotional offers, and catalogues and shipping package designs.

The Group also promotes the Apparel Brands through popular social media networks such as Weibo and Wechat by creating and maintaining chat groups and fans groups. Regular updates of the Apparel Brands including new collections, promotions and coupons are sent to such chat groups and fans groups regularly as a marketing strategy of the Group. As at the Latest Practicable Date, the Group had nurtured more than 100,000 active online fans on certain social media platforms in the PRC.

(ii) 天貓商城 ("**Tmall**") (www.tmall.com)

Tmall is a B2C online shopping platform operated by Alibaba Group Company. In June 2013, the Group entered into an agreement with Tmall pursuant to which the Group operates its online stores of the Apparel Brands at the Tmall platform. The Group pays a monthly fee to Tmall for its search engine marketing service, which enables the Apparel Brands to be listed upon the search by an online customer of keywords related to the Group's products or the Apparel Brands.

Since March 2014, the Consultant has been assisting in the operations of online shops of the Apparel Brands at Tmall. In addition, in order to increase sales volume in line with the Group's online marketing strategies, the Company engaged a marketing company (the "**Marketing Company**") specialised in online sales and marketing solutions in March 2014 to rebuild and overhaul the Group's online platform aiming at increasing brand awareness and enhancing customers reach of the Group's apparel products. The Marketing Company assisted the Group in redesigning brand images, updating website and carrying out marketing and sales strategies.

(iii) 淘寶網 ("**Taobao**") (www.taobao.com)

Taobao is a C2C online shopping platform operated by Alibaba Group Company. In 2014, the Group developed an additional sales channel through cooperation with other merchants operating on the website of Taobao. At present, the apparel products of the Group are made available on the online stores of two merchants at Taobao targeting different segments of the apparel market (such as college students and video game players). The merchants will charge the Group commission fees if the Group's apparel products are sold through their shops.

(iv) 京東商城 ("**Jingdong**") (www.jd.com)

Jingdong is listed as JD.com, Inc. on NASDAQ. As a competitor of Tmall, Jingdong is one of the most popular B2C online shopping platforms in the PRC. With the partnership of Jingdong and Tencent Holdings Limited ("**Tencent**"), online store owners at Jingdong are expected to be able to leverage on the extended customer base of Tencent in addition to customers of Jingdong. In July 2014, the Group made an application to Jingdong to operate an online store at the platform of Jingdong which has been approved on 22 August 2014. The Group commenced e-commerce sales on the online sales platform of Jingdong in early September 2014.

As the Group's e-commerce operations only commenced in late 2012, sales through e-commerce channels for the year ended 31 March 2013 were not material. The Group's sales through e-commerce channels amounted to approximately RMB517,000 (equivalent to approximately HK$646,250) for the year ended 31 March 2014, representing approximately 2.9% of the Group's revenue for the year.

Total marketing expenses relating to e-commerce amounted to approximately RMB312,000 (equivalent to approximately HK$390,000) and RMB663,000 (equivalent to approximately HK$828,750) for each of the two years ended 31 March 2013 and 2014. Total marketing expenses relating to e-commerce amounted to approximately RMB332,000 (equivalent to approximately HK$415,000) for the four months ended 31 July 2014. The Group planned to continue to expand its e-commerce sales and provided a budget of approximately RMB650,000 (equivalent to approximately HK$812,500) for the sales and promotion of the Group's e-commerce platform for the year ending 31 March 2015.

The Group also expanded its e-commerce team by recruiting additional staff since April 2014. As of the Latest Practicable Date, the e-commerce team consists of six employees.

The Board is of the view that the cost saving from such change in focus of sales channel of the Group's apparel business outweighs the investment sum in developing the e-commerce platform. The Board believes that such change is in the best interest of the Shareholders and the Company as a whole.

Apart from the Group's existing businesses, the Group also looks for other opportunities to diversify its businesses. The Group believes that pursuing a diversified business strategy would be a good way to generate more opportunities and long-term revenue under the current economic environment. The Company intends to continue with the existing business plans of the Target Group and does not intend to introduce major changes to the Target Group's businesses after Completion. After Completion, the Target Group intends to extend its business to more locations in the PRC through cooperating with distributors in other provinces in the PRC. In addition, BJ Xinzhitang had been delegated by the NEEA to promote and assist in organising Cambridge Young Learners English examinations in a number of cities such as Beijing, Shanghai, Ningxia and Xinjiang. With the established relationship of the management of the Target Group with the NEEA, the Target Group is expected to be well positioned to capture business opportunities arising from the increasing demand for English learning materials in the PRC.

The Directors believe that the Acquisition will benefit the Enlarged Group's long term sustainable growth and the Target Group will contribute stable income to the Enlarged Group.

1. FINANCIAL INFORMATION OF THE TARGET GROUP

I. ACCOUNTANTS' REPORT

The following is the text of the report prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

The Board of Directors
Tack Fiori International Group Limited
Room 2201, 22/F
Kwan Chart Tower
No. 6 Tonnochy Road
Wanchai
HONG KONG

Dear Sirs,

We set out below our report on the financial information of China Education Media Limited (the "Target Company") and its subsidiary (hereinafter collectively referred to as the "Target Group"), comprising the consolidated statements of financial position of the Target Group as at 31 December 2011, 2012 and 2013 and 30 June 2014, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for the years ended 31 December 2011, 2012 and 2013 and for the six months period ended 30 June 2014 (the "Relevant Periods"), together with the note thereto (the "Financial Information"), and the comparative consolidated statement of profit or loss and other comprehensive income, the consolidated statement change in equity and the consolidated statement of cash flows of the Target Group for the six months ended 30 June 2013 (the "Unaudited Comparative Financial Information"), prepared on the basis of presentation set out in Note 2 of Section II below, for inclusion in the circular of Tack Fiori International Group Limited (the "Company") dated 16 October 2014 (the "Circular") in connection with the conditional sale and purchase agreement dated 19 August 2014 (the "Agreement") entered into between a subsidiary of the Company (the "Purchaser") and Mr. Wong Lik Ping (the "Vendor") pursuant to which the Purchaser would acquire the entire issued share capital of the Target Company and the entire amount of shareholder's loan due by the Target Group to Vendor at a total consideration of HK$60 million (the "Consideration") (collectively refer as the "Acquisition"). The Consideration shall be satisfied in cash.

The Target Company is principally engaged in investment holdings and is incorporated in British Virgin Islands with limited liability on 29 December 2004. As at 30 June 2014, the Target Company has no major assets or operating business other than its entire equity interest in 北京新知堂教育科技開發有限公司 (transliterated as Beijing Xinzhitang Educational Technology Development Company Limited) ("BJ Xinzhitang") and cash and cash equivalents. No audited financial statements have been prepared for the Target Company since its date of incorporation as there are no statutory requirements for the Target Company to prepare audited financial statements.

Particular of the principal subsidiary comprising the Target Group at the date of this report is set out below:

Company name	Place of incorporation/ registration	Nominal value of issued and fully paid-up share/registered paid-up capital	Percentage of equity interest attributable to the Target Company	Principal activities
Directly held:				
BJ Xinzhitang	The People's Republic of China (the "PRC")	US$3,000,000/ US$3,000,000	100%	Development and sales of education software products and provision of technical support services in the PRC

The statutory audited financial statements of BJ Xinzhitang for the years ended 31 December 2011, 2012 and 2013 was prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in the PRC and were audited by Beijing Gentlemind Certified Public Accountants Co., Ltd, certified public accountants registered in the PRC.

The Target Group adopts 31 December as its financial year end date.

BASIS OF PREPARATION

For the purpose of this report, the directors of the Target Company have prepared the Financial Information for the Relevant Periods based on the unaudited financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance. The Financial Information for each of the Relevant Periods were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA. The Financial Information set out in this report has been prepared from the unaudited financial statements with no adjustments made thereon.

RESPONSIBILITY OF THE DIRECTORS

The directors of the Target Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with the basis set out in Note 2 of Section II. The directors of the Company are responsible for the content of the circular in which this report is included. The directors of the Target Company are responsible for the preparation of the Financial Information and the Unaudited Comparative Financial Information that give a true and fair view in accordance with HKFRSs and the disclosure requirements of Listing Rules and the Hong Kong Companies Ordinance, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Financial Information and the Unaudited Comparative Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

For the Financial Information for the Relevant Periods, it is our responsibility to form an independent opinion on the Financial Information based on our examination and to report our opinion to you. We examined the relevant audited financial statements of the Target Group for the Relevant Periods, and carried out such procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the purpose of this report, we have reviewed the Unaudited Comparative Financial Information for which the directors of the Target Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2400 (Revised) "Engagements to Review Historical Financial Statements" issued by the HKICPA. A review consists principally of making enquiries of the Target Group's management and applying analytical procedures to the Unaudited Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Unaudited Comparative Financial Information.

OPINION

In our opinion, the Financial Information for the Relevant Periods, for the purpose of this report gives a true and fair view of the consolidated state of affairs of the Target Group as at 31 December 2011, 2012 and 2013 and 30 June 2014 and of the consolidated results and consolidated cash flows of the Target Group for the Relevant Periods.

On the basis of our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Unaudited Comparative Financial Information is not prepared, in all material respects, in accordance with accounting policies set out in Note 2 of Section II below which are in conformity with HKFRSs.

II. FINANCIAL INFORMATION

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Notes	For the year ended 31 December 2011 HK$'000	For the year ended 31 December 2012 HK$'000	For the year ended 31 December 2013 HK$'000	For the six months ended 30 June 2013 HK$'000 (Unaudited)	For the six months ended 30 June 2014 HK$'000
Turnover	6	10,377	4,940	10,828	976	9,745
Cost of sales		(3,714)	(1,307)	(2,208)	(473)	(676)
Gross profit		6,663	3,633	8,620	503	9,069
Other revenue	7	690	2,330	1,678	602	691
Selling expenses		(440)	(326)	(184)	(90)	(89)
Administrative expenses		(2,594)	(2,791)	(3,617)	(1,710)	(2,099)
Profit/(loss) before taxation	8	4,319	2,846	6,497	(695)	7,572
Taxation	10	(579)	(372)	(831)	—	(1,062)
Profit/(loss) for the year/period		3,740	2,474	5,666	(695)	6,510
Other comprehensive income/(loss) for the year/period, net of tax:						
Items that may be reclassified subsequently to profit or loss:						
— Exchange differences on translating foreign operations		1,140	198	1,401	1,299	(736)
Total comprehensive income for the year/period, net of tax		4,880	2,672	7,067	604	5,774
Profit/(loss) for the year/period attributable to:						
— Owners of the Target Company		3,740	2,474	5,666	(695)	6,510
Total comprehensive income attributable to:						
— Owners of the Target Company		4,880	2,672	7,067	604	5,774

The accompanying notes form an integral part of the Financial Information.

Consolidated Statements of Financial Position

	Notes	As at 31 December 2011 HK$'000	As at 31 December 2012 HK$'000	As at 31 December 2013 HK$'000	As at 30 June 2014 HK$'000
Non-current assets					
Property, plant and equipment	12	1,687	1,832	2,104	1,626
Current assets					
Inventories	13	2,649	1,879	1,642	3,499
Trade receivables	14	1,190	1,041	3,063	6,346
Prepayments, deposits and other receivables	15	251	289	347	318
Amounts due from related companies	16	—	3,681	5,073	7,375
Available-for-sale investments	17	—	26,998	29,551	20,000
Cash and cash equivalents	18	33,363	5,315	7,613	16,689
		37,453	39,203	47,289	54,227
Current liabilities					
Amount due to a shareholder	19	24,430	24,430	24,430	24,430
Accruals and other payables	20	774	255	947	1,385
Tax payables		506	196	842	1,052
Receipt in advance		8	60	13	51
		25,718	24,941	26,232	26,918
Net current assets		11,735	14,262	21,057	27,309
Net assets		13,422	16,094	23,161	28,935
Capital and reserves					
Share capital	21	—	—	—	—
Reserves		13,422	16,094	23,161	28,935
		13,422	16,094	23,161	28,935

The accompanying notes form an integral part of the Financial Information.

Consolidated Statements of Changes in Equity

	Share capital *HK$'000*	**Statutory reserve** *HK$'000* *(Note (a))*	**Translation reserve** *HK$'000* *(Note (b))*	**Retained earnings** *HK$'000*	**Total** *HK$'000*
At 1 January 2011	—	—	2,129	6,413	8,542
Profit for the year	—	—	—	3,740	3,740
Other comprehensive income for the year	—	—	1,140	—	1,140
Total comprehensive income for the year	—	—	1,140	3,740	4,880
At 31 December 2011 and 1 January 2012	—	—	3,269	10,153	13,422
Profit for the year	—	—	—	2,474	2,474
Other comprehensive income for the year	—	—	198	—	198
Total comprehensive income for the year	—	—	198	2,474	2,672
Transfer to statutory reserve fund	—	321	—	(321)	—
At 31 December 2012	—	321	3,467	12,306	16,094

	Share capital HK$'000	Statutory reserve HK$'000 (Note (a))	Translation reserve HK$'000 (Note (b))	Retained earnings HK$'000	Total HK$'000
At 1 January 2013	—	321	3,467	12,306	16,094
Profit for the year	—	—	—	5,666	5,666
Other comprehensive income for the year	—	—	1,401	—	1,401
Total comprehensive income for the year	—	—	1,401	5,666	7,067
Transfer to statutory reserve fund	—	731	—	(731)	—
At 31 December 2013 and 1 January 2014	—	1,052	4,868	17,241	23,161
Profit for the period	—	—	—	6,510	6,510
Other comprehensive income for the period	—	—	(736)	—	(736)
Total comprehensive (loss)/ income for the period	—	—	(736)	6,510	5,774
Transfer to statutory reserve fund	—	863	—	(863)	—
At 30 June 2014	—	1,915	4,132	22,888	28,935
At 1 January 2013	—	321	3,467	12,306	16,094
Loss for the period	—	—	—	(695)	(695)
Other comprehensive income for the period	—	—	1,299	—	1,299
Total comprehensive income/(loss) for the period	—	—	1,299	(695)	604
At 30 June 2013 (unaudited)	—	321	4,766	11,611	16,698

Notes:

(a) Subsidiary of the Target Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.

(b) The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong.

Consolidated Statements of Cash Flows

	For the year ended 31 December 2011	For the year ended 31 December 2012	For the year ended 31 December 2013	For the six months ended 30 June 2013	For the six months ended 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
OPERATING ACTIVITIES					
Profit/(loss) before taxation	4,319	2,846	6,497	(695)	7,572
Adjustments for:					
Interest income	(52)	(20)	(12)	(7)	(14)
Realised gain on available-for-sale investments	(638)	(986)	(929)	(595)	(677)
Gain on disposal of property, plant and equipment	—	(33)	—	—	—
Depreciation	746	870	994	486	453
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	4,375	2,677	6,550	(811)	7,334
(Increase)/decrease in trade receivables	(1,190)	149	(2,022)	266	(3,283)
(Increase)/decrease in prepayments, deposits and other receivables	(126)	(38)	(58)	(139)	29
Increase in amounts due from related companies	—	(3,681)	(1,392)	—	(2,302)
Decrease/(increase) in inventories	1,479	770	237	190	(1,857)
Increase/(decrease) in accruals and other payables	737	(519)	692	(16)	438
(Decrease)/increase in receipt in advance	(160)	52	(47)	(36)	38
Cash generated from/(used in) operations	5,115	(590)	3,960	(546)	397
Income tax paid	(121)	(682)	(199)	(197)	(838)
Net cash generated from/(used in) operating activities	4,994	(1,272)	3,761	(743)	(441)

	For the year ended 31 December 2011 HK$'000	For the year ended 31 December 2012 HK$'000	For the year ended 31 December 2013 HK$'000	For the six months ended 30 June 2013 HK$'000 (Unaudited)	For the six months ended 30 June 2014 HK$'000
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(261)	(1,123)	(1,201)	(1,192)	—
Proceeds from disposal of property, plant and equipment	—	144	—	—	—
Purchase of available-for-sale investments	(70,353)	(114,885)	(116,515)	(64,325)	(29,412)
Proceeds from maturity of available-for-sale investments	70,989	88,867	115,816	76,096	39,303
Interest received	52	20	12	7	14
Net cash generated from/(used in) investing activities	427	(26,977)	(1,888)	10,586	9,905
Net increase/(decrease) in cash and cash equivalents	5,421	(28,249)	1,873	9,843	9,464
Cash and cash equivalents at the beginning of the year/period	26,861	33,363	5,315	5,315	7,613
Effect of foreign exchange rate changes	1,081	201	425	568	(388)
Cash and cash equivalents at the end of the year/period	33,363	5,315	7,613	15,726	16,689
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and cash equivalents	33,363	5,315	7,613	15,726	16,689

The accompanying notes form an integral part of the Financial Information.

II. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The registered office of the Target Company is at Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands. The Target Company was incorporated in British Virgin Islands and is principally engaged in investment holding and its subsidiary is principally engaged in the businesses of development and sales of education software products and provision of technical support services in the PRC.

The Financial Information is presented in Hong Kong Dollars ("HK$"), which is the presentation currency of the Target Company and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes HKFRSs, Hong Kong Accounting Standards ("HKAS") and related interpretations promulgated by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange.

The HKICPA has issued a number of new and revised HKFRSs during the Relevant Periods. For the purpose of preparing this Financial Information, the Target Group has adopted all these new and revised HKFRSs to the Relevant Periods.

At the date of this report, the Target Group has not applied the following new or revised HKFRSs that have been issued by the HKICPA but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[2]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[3]
HKAS 19 (Amendments)	Employee Benefits[2]
HKAS 27 (Amendments)	Separate Financial Statements[3]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[5]
HKFRS 9	Financial Instruments[5]
HKFRS 11 (Amendments)	Joint Arrangements[3]
HKFRS 14	Regulatory Deferral Accounts[3]
HKFRS 15	Revenue from Contracts with Customers[4]

1 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
2 Effective for annual periods beginning on or after 1 July 2014, with early application permitted
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after 1 January 2017
5 No mandatory effective date yet determined but is available for adoption

The directors of the Target Company anticipate that the application of new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Target Group as well as the disclosure in the consolidated financial statements.

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Target Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgments, 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 judgments 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 recognised 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.

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(c) Impairment of assets

(i) Financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets, objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— breach of contracts, such as a default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or

— the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of within 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that other assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price 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 the 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 generate cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

— *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 losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated statements of profit or loss and other comprehensive income in the year in which the reversals are recognised.

(d) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statements of financial position when an entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated statements of profit or loss and other comprehensive income.

(i) Financial assets

Financial assets are classified into available-for-sale investments and loans and receivables (including cash and bank balances). All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales of financial assets that requires delivery of assets within the time frame established by regulation or convention in the marketplace.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Target Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity investments are recognised in profit or loss when the Target Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables including trade and other receivables, available-for-sale investments and cash and cash equivalents are carried at amortised cost using the effective interest method, less any identified impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortised cost of debt instrument and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(ii) Financial liabilities (including interest-bearing borrowings)

Financial liabilities including other payables are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the consolidated statements of profit or loss and other comprehensive income.

Gains and losses are recognised in the consolidated statements of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the entity has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated statements of profit or loss and other comprehensive income.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the consolidated statements of profit or loss and other comprehensive income.

(e) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted to use.

(f) Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Target Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Revenue from provision of service is recognised when the services are provided.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(g) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of items of property, plant and equipment, using the straight line method, over its estimated useful life. The principal annual rates are as follows:

Office equipment	20%
Motor vehicles	25%
Furniture and fixtures	33.33%
Leasehold improvements	20%

The gain or loss on disposal or retirement of an item of property, plant and equipment is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated statements of profit or loss and other comprehensive income.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the average method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

(i) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes consolidated statements of profit or loss and other comprehensive income items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associate, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the consolidated statements of profit or loss and other comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(j) Provisions

Provisions are recognised when the Target Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligations.

(k) Foreign currency

i. Functional and presentation currency

Items included in the consolidated financial statements of the Target Group are measured using the currency of the primary economic environment in which the Target Group operates (the "functional currency"). The financial statements are presented in HK$, which is the functional and presentation currency of the Target Company.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of profit or loss and other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of their fair value gain or loss.

iii. Group companies

The result and financial positions of all the companies now comprising the Target Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities are translated at the closing rate;

(b) Income and expenses are translated at average exchange rates; and

(c) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to owners' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated statement of profit or loss and other comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(l) Related parties transactions

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

(1) has control or joint control over the Target Group;

(2) has significant influence over the Target Group; or

(3) is a member of the key management personnel of the Target Group or of a parent of the Target Group.

(ii) An entity is related to the Target Group if any of the following conditions applies:

(1) the entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) 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).

(3) both entities are joint ventures of the same third party.

(4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(6) the entity is controlled or jointly controlled by a person identified in (i).

(7) a person identified in (i)(1) 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).

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

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

(m) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leases. All other leases are classified as operating leases.

The Target Group as lessee

Assets held under finance leases are initially recognised as assets of the Target Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Target Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(n) Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

(o) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Target Group's research and development activities, no development costs satisfy the criteria for the recognition of such costs as an asset. Both research and development costs are therefore recognised as expenses in the period in which they are incurred.

3. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Target Group's accounting policies which are described in Note 2, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below:

(a) Income taxes

The Target Group is subject to income taxes in PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Impairment of property, plant and equipment

The Target Group assesses whether there are any indicators of impairment for an asset at the end of each reporting period. The asset is tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, an estimation of the value in use of the cash-generating units to which the asset is allocated will be required. Estimating the value in use requires the Target Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to estimated impairment provision previously made.

In determining the useful life and residual value of an item of property, plant and equipment, the Target Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Target Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

(c) Impairment of trade receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Target Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated statements of profit or loss and other comprehensive income. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

4. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loan and receivables (including cash and cash equivalents)				
— trade receivables	1,190	1,041	3,063	6,346
— deposits and other receivables	251	289	347	318
— amounts due from related companies	—	3,681	5,073	7,375
— cash and cash equivalents	33,363	5,315	7,613	16,689
Available-for-sale investments	—	26,998	29,551	20,000
	34,804	37,324	45,647	50,728
Financial liabilities				
Amortised cost				
— other payables	723	210	864	1,313
— amount due to a shareholder	24,430	24,430	24,430	24,430
	25,153	24,640	25,294	25,743

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include trade and other receivables, cash and cash equivalents, amount due to a shareholder and other payables. The details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The main risks arising from the Target Group's financial instruments are currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Currency risk

Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Target Group operates mainly in the PRC and majority of transactions are dominated in RMB. The Target Group is exposed to limited foreign exchange risk as most assets and liabilities are denominated in RMB. The Target Group currently does not have a foreign currency hedging policy, which is the functional currency of the PRC subsidiary in respect of foreign current assets and liabilities. The Target Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Target Group's credit risk is primarily attributable to trade and other receivables. It has policies in place to ensure that sales and services are made to customers with an appropriate credit history. The exposure to these credit risks are monitored on an ongoing basis.

The carrying amounts of trade receivables included in the consolidated statements of financial position represent the Target Group's maximum exposure to credit risk in relation to the Target Group's financial assets. No other financial assets carry a significant exposure to credit risk.

In the opinion of the directors of the Target Company, since the currency risk is minimal, no sensitivity analysis is presented.

Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due, and it results from amount and maturity mismatches of assets and liabilities. The Target Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

The Target Group's financial liabilities are analysed into relevant maturity groupings based on the remaining period at the respective end of the reporting periods to the contractual maturity date, using the contractual undiscounted cash flows, as follows:

	At 30 June 2014					
	Weighted average interest rate	**Carrying amount**	**On demand**	**Less than 1 year**	**Over 1 year**	**Total**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	—	1,313	—	1,313	—	1,313
Amount due to a shareholder	—	24,430	24,430	—	—	24,430
	—	25,743	24,430	1,313	—	25,743

	At 31 December 2013					
	Weighted average interest rate	**Carrying amount**	**On demand**	**Less than 1 year**	**Over 1 year**	**Total**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	—	864	—	864	—	864
Amount due to a shareholder	—	24,430	24,430	—	—	24,430
	—	25,294	24,430	864	—	25,294

	At 31 December 2012					
	Weighted average interest rate	**Carrying amount**	**On demand**	**Less than 1 year**	**Over 1 year**	**Total**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	—	210	—	210	—	210
Amount due to a shareholder	—	24,430	24,430	—	—	24,430
	—	24,640	24,430	210	—	24,640

	At 31 December 2011					
	Weighted average interest rate	Carrying amount	On demand	Less than 1 year	Over 1 year	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	—	723	—	723	—	723
Amount due to a shareholder	—	24,430	24,430	—	—	24,430
	—	25,153	24,430	723	—	25,153

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

(ii) the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rate.

Except as detailed in the following table, the directors consider that the carrying amount of other financial assets and financial liabilities carried at amortised cost, approximate to their fair values due to the relatively short-term nature of these financial instruments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as at 31 December 2011, 2012 and 2013 and 30 June 2014.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Target Group has no financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period.

5. CAPITAL RISK MANAGEMENT

The Target Group monitors its capital structure on the basis of a debt-to-capital ratio. For this purpose, the Target Group defines debt as total borrowings which are bearing fixed or variable interest rates. Capital represents the total equity in the consolidated statements of financial position.

The Target Group's strategy was to maintain the debt-to-capital ratio as low as feasible. In order to maintain or adjust the ratio, the Target Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Target Group did not have any debt during the Relevant Periods.

The Target Group is not subject to externally imposed capital requirements.

6. TURNOVER

An analysis for the Target Group's turnover for the year/period is as follows:

	For the year ended 31 December 2011 *HK$'000*	For the year ended 31 December 2012 *HK$'000*	For the year ended 31 December 2013 *HK$'000*	For the six months ended 30 June 2013 *HK$'000* (Unaudited)	For the six months ended 30 June 2014 *HK$'000*
Turnover:					
Service fee income *(Note)*	2,017	804	5,028	—	747
Sale of products	8,360	4,136	5,800	976	8,998
	10,377	4,940	10,828	976	9,745

Note:

The service fee income is related to the provision of product-related service including training, technical support and after-sale services to users.

7. OTHER REVENUE

An analysis for the Target Group's other revenue for the year/period is as follows:

	For the year ended 31 December 2011 *HK$'000*	For the year ended 31 December 2012 *HK$'000*	For the year ended 31 December 2013 *HK$'000*	For the six months ended 30 June 2013 *HK$'000* (Unaudited)	For the six months ended 30 June 2014 *HK$'000*
Bank interest income	52	20	12	7	14
Realised gain on available-for-sale investments	638	986	929	595	677
Government grant *(Note)*	—	1,291	736	—	—
Gain on disposal of property, plant and equipment	—	33	—	—	—
Sundry income	—	—	1	—	—
	690	2,330	1,678	602	691

Note:

Government grants include subsidies income received by the subsidiary of the Target Group which operates in the PRC in accordance with the tax concession policies imposed by the State Administration of Taxation and in relation to the sale of software. Subsidies income is recognised in the consolidated statement of profit or loss and other comprehensive income when specific conditions have been required to fulfill. The government grants recognised for the years ended 31 December 2012 and 2013 are non-recurring and no unfulfilled conditions or contingencies relating to these government grants.

8. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation has been arrived at after charging:

	For the year ended 31 December 2011	For the year ended 31 December 2012	For the year ended 31 December 2013	For the six months ended 30 June 2013	For the six months ended 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Staff cost:					
Employee benefit expense (including directors' remuneration *(Note 9)*):					
Salaries and allowance	1,251	1,474	1,751	847	872
Pension scheme contributions	553	636	892	409	447
	1,804	2,110	2,643	1,256	1,319
Other items:					
Auditors' remuneration	14	15	15	15	20
Depreciation of property, plant and equipment	746	870	994	486	453
Cost of inventories recognised as an expense	3,073	806	1,649	248	309
Research and development costs	1,097	1,397	2,456	1,155	1,247

9. DIRECTORS' AND SENIOR MANAGEMENT EMOLUMENTS

(a) Details of directors' emoluments are as follows:

	For the year ended 31 December 2011	For the year ended 31 December 2012	For the year ended 31 December 2013	For the six months ended 30 June 2013	For the six months ended 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	173	201	210	104	106
Provident fund contributions	75	88	98	46	52
	248	289	308	150	158

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Provident fund contributions *HK$'000*	Total remuneration *HK$'000*
For the six months period ended 30 June 2014				
Wong Lik Ping	—	—	—	—
Lau Kwai Yung	—	—	—	—
Yang Wei	—	106	52	158
	—	106	52	158

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Provident fund contributions *HK$'000*	Total remuneration *HK$'000*
For the six months period ended 30 June 2013 (unaudited)				
Wong Lik Ping	—	—	—	—
Lau Kwai Yung	—	—	—	—
Yang Wei	—	104	46	150
	—	104	46	150

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Provident fund contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2013				
Wong Lik Ping	—	—	—	—
Lau Kwai Yung	—	—	—	—
Yang Wei	—	210	98	308
	—	210	98	308

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Provident fund contributions *HK$'000*	Total remuneration *HK$'000*
Year ended 31 December 2012				
Wong Lik Ping	—	—	—	—
Lau Kwai Yung	—	—	—	—
Yang Wei	—	201	88	289
	—	201	88	289

	Fees	Salaries, allowances and benefits in kind	Provident fund contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2011				
Wong Lik Ping	—	—	—	—
Lau Kwai Yung	—	—	—	—
Yang Wei	—	173	75	248
	—	173	75	248

(b) Five highest paid individuals

Of the five individuals with highest emoluments, one was a director of the Target Company for the years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2013 and 2014 respectively whose emoluments are disclosed in Note 9(a). The emoluments in respect of the other than directors is as follows:

	For the year ended 31 December 2011	For the year ended 31 December 2012	For the year ended 31 December 2013	For the six months ended 30 June 2013	For the six months ended 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Director	248	289	308	150	158
Non-directors	506	618	746	369	365
	754	907	1,054	519	523

Details of the remuneration of the above non-director, highest paid employees during the Relevant Periods are as follows:

	For the year ended 31 December 2011	For the year ended 31 December 2012	For the year ended 31 December 2013	For the six months ended 30 June 2013	For the six months ended 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries, allowances and benefit in kinds	350	420	508	252	244
Pension scheme contributions	156	198	238	117	121
	506	618	746	369	365

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

During the Relevant Periods, no emoluments were paid by the Target Company to the directors and highest paid employees as an inducement to join, or upon joining the Target Company, or as compensation for loss of office. None of the directors and highest paid employees has waived emoluments during the Relevant Periods.

During the Relevant Periods, the emoluments of senior management were all less than HK$1,000,000.

10. TAXATION

	For the year ended 31 December 2011 *HK$'000*	For the year ended 31 December 2012 *HK$'000*	For the year ended 31 December 2013 *HK$'000*	For the six months ended 30 June 2013 *HK$'000* (Unaudited)	For the six months ended 30 June 2014 *HK$'000*
Current tax for the year/ period:					
Provision for the year/period	579	372	831	—	1,062

PRC Enterprise Income Tax

The provision for PRC Enterprise Income Tax for the Target Group in the PRC is based on PRC Enterprise Income Tax rates of 25% of the taxable income as determined in accordance with the relevant income tax rules and regulations of the PRC.

In accordance with the relevant PRC tax rules and regulations, Target Group is exempted from PRC Enterprise Income Tax for two consecutive years from their first profit making year, and are entitled to a 50% relief on the PRC Enterprise Income Tax for the following three years ("Tax Holidays"). Pursuant to the transitional arrangement under the new tax law passed by the Fifth Plenary Session of the Tenth National People's Congress on 16 March 2007 which took effect on 1 January 2008 (the "New Tax Law"), the Target Group will continue to enjoy the tax-exemption or 50% relief on the applicable PRC Enterprise Income tax rate under the New Tax Law until the expiry of the Tax Holidays previously granted, and thereafter they are subject to a unified rate of 25%. For those enterprises whose Tax Holidays had not commenced prior to 1 January 2008 due to lack of taxable profit before then, such preferential tax treatment commenced from 1 January 2008.

The PRC subsidiary of the Target Group is qualified as a High Technology Enterprises under the relevant PRC rules and regulations and enjoys the PRC Enterprise Income Tax rates of 15% instead of 25% from 2013.

The tax charge for the Relevant Periods can be reconciled to the profit/(loss) before taxation per consolidated statements of profit or loss and other comprehensive income as follows:

	For the year ended 31 December 2011 *HK$'000*	For the year ended 31 December 2012 *HK$'000*	For the year ended 31 December 2013 *HK$'000*	For the six months ended 30 June 2013 *HK$'000* (Unaudited)	For the six months ended 30 June 2014 *HK$'000*
Profit/(loss) before taxation	4,319	2,846	6,497	(695)	7,572
Tax at statutory tax rate	1,080	712	1,624	(174)	1,893
Tax effect of expense not deductible for tax purpose	2,796	32	14	—	—
Tax effect of income not taxable for tax purpose	(2,718)	—	(250)	—	(122)
Tax effect of tax loss not recognised	—	—	—	174	—
Preferential income tax treatment	(579)	(372)	(557)	—	(709)
Tax charge for the year/period	579	372	831	—	1,062

11. DIVIDEND

The directors of the Target Company do not recommend the payment of any dividend in respect of the Relevant Periods.

12. PROPERTY, PLANT AND EQUIPMENT

	Office equipment *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
Cost					
As at 1 January 2011	166	33	2,402	624	3,225
Additions	—	—	261	—	261
Exchange realignment	6	1	94	22	123
As at 31 December 2011 and 1 January 2012	172	34	2,757	646	3,609
Additions	—	—	1,123	—	1,123
Disposals	—	—	(301)	—	(301)
Exchange realignment	—	—	4	1	5
As at 31 December 2012 and 1 January 2013	172	34	3,583	647	4,436
Additions	—	—	1,201	—	1,201
Exchange realignment	7	1	145	27	180
As at 31 December 2013 and 1 January 2014	179	35	4,929	674	5,817
Exchange realignment	(3)	—	(68)	(13)	(84)
As at 30 June 2014	176	35	4,861	661	5,733
Accumulated depreciation					
As at 1 January 2011	134	14	651	324	1,123
Charge for the year	20	6	593	127	746
Exchange realignment	6	1	31	15	53
As at 31 December 2011 and 1 January 2012	160	21	1,275	466	1,922
Charge for the year	4	6	731	129	870
Written back on disposals	—	—	(190)	—	(190)
Exchange realignment	—	—	2	—	2
As at 31 December 2012 and 1 January 2013	164	27	1,818	595	2,604
Charge for the year	1	5	934	54	994
Exchange realignment	7	1	82	25	115
As at 31 December 2013 and 1 January 2014	172	33	2,834	674	3,713
Charge for the period	—	—	453	—	453
Exchange realignment	(3)	—	(43)	(13)	(59)
As at 30 June 2014	169	33	3,244	661	4,107
Carrying amount					
As at 31 December 2011	12	13	1,482	180	1,687
As at 31 December 2012	8	7	1,765	52	1,832
As at 31 December 2013	7	2	2,095	—	2,104
As at 30 June 2014	7	2	1,617	—	1,626

13. INVENTORIES

	As at 31 December 2011 HK$'000	As at 31 December 2012 HK$'000	As at 31 December 2013 HK$'000	As at 30 June 2014 HK$'000
Raw materials	135	114	91	235
Finished goods	2,514	1,765	1,551	3,264
	2,649	1,879	1,642	3,499

14. TRADE RECEIVABLES

	As at 31 December 2011 HK$'000	As at 31 December 2012 HK$'000	As at 31 December 2013 HK$'000	As at 30 June 2014 HK$'000
Trade receivables	1,190	1,041	3,063	6,346

The ageing analysis of trade receivables is as follows:

	As at 31 December 2011 HK$'000	As at 31 December 2012 HK$'000	As at 31 December 2013 HK$'000	As at 30 June 2014 HK$'000
0–90 days	1,190	1,041	3,063	5,718
91–180 days	—	—	—	628
	1,190	1,041	3,063	6,346

According to the credit rating of different customers, the Target Group allows a range of credit periods within 90 days to its trade customers.

Trade receivables that past due at the end of the Relevant Periods for which the Target Group has not impair because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Ageing of trade receivables which are past due but not considered to be impaired is as follows:

	As at 31 December 2011 HK$'000	As at 31 December 2012 HK$'000	As at 31 December 2013 HK$'000	As at 30 June 2014 HK$'000
Overdue by:				
91–180 days	—	—	—	628

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayments	—	—	—	250
Deposits	62	63	65	64
Other receivables	189	226	282	4
	251	289	347	318

16. AMOUNTS DUE FROM RELATED COMPANIES

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Name of related companies				
遼寧紅山玉科技有限公司 (transliterated as Liaoning Hongshan Jade Technology Company Limited)	—	3,681	—	—
北京紅山玉石科技發展有限公司 (transliterated as Beijing Hongshan Jade Technology Company Limited)	—	—	3,805	3,750
北京新知堂傳媒科技有限公司 (transliterated as Beijing Xinzhitang Media & Technology Company Limited)	—	—	1,268	3,625
	—	3,681	5,073	7,375

	For the year ended 31 December 2011	For the year ended 31 December 2012	For the year ended 31 December 2013	For the six months ended 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Highest balance during the year/period				
Name of related companies				
遼寧紅山玉科技有限公司 (transliterated as Liaoning Hongshen Jade Technology Company Limited)	—	3,681	—	—
北京紅山玉石科技發展有限公司 (transliterated as Beijing Hongshan Jade Technology Company Limited)	—	—	3,805	3,805
北京新知堂傳媒科技有限公司 (transliterated as Beijing Xinzhitang Media & Technology Company Limited)	—	—	1,268	3,625

The amounts due from related companies are unsecured, interest-free and recoverable on demand. The balance was fully settled subsequent to the end of the reporting period.

17. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale investments	—	26,998	29,551	20,000

The available-for-sale investments are related to the investment in open-end asset portfolio wealth management products purchased from licensed bank in the PRC. The investments carried interest rate at 1.35%–5.60% with the holding period from 10–196 days. The fair values of the investments are determined by bank at the end of each reporting period.

18. CASH AND CASH EQUIVALENTS

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and cash equivalents	33,363	5,315	7,613	16,689

Majority of cash at bank and in hand are denominated in RMB. Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Included in the cash and bank balances were amounts in RMB of approximately HK$30,997,000, HK$2,949,000, HK$5,448,000 and HK$14,542,000 as at 31 December 2011, 2012, 2013 and 30 June 2014 which not freely convertible into other currencies.

19. AMOUNT DUE TO A SHAREHOLDER

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amount due to a shareholder	24,430	24,430	24,430	24,430

The amount due to a shareholder is unsecured, interest-free and repayable on demand.

20. ACCRUALS AND OTHER PAYABLES

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	723	210	864	1,313
Accruals	51	45	83	72
	774	255	947	1,385

Other payables mainly represent the value-added tax payables of approximately HK$723,000, HK$210,000, HK$864,000 and HK$1,313,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014 respectively.

21. SHARE CAPITAL

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
Registered capital:				
At beginning of the year/period and at end of the year/period	US$50,000	US$50,000	US$50,000	US$50,000

	As at 31 December 2011 *HK$*	As at 31 December 2012 *HK$*	As at 31 December 2013 *HK$*	As at 30 June 2014 *HK$*
Issued capital:				
At beginning of the year/period and at end of the year/period	8	8	8	8

The Target Company issued 1 ordinary share with par value US$1 each at the date of its incorporation.

22. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in Notes 9, 16 and 19 in the Financial Information, the Target Group had entered into the following related party transactions, which in the opinion of the directors of the Target Company, were carried out on normal commercial terms and in the ordinary course of business.

(a) Compensation of key management personnel of the Target Company, including directors' remuneration as detailed in Note 9 above.

	For the year ended 31 December 2011 *HK$'000*	For the year ended 31 December 2012 *HK$'000*	For the year ended 31 December 2013 *HK$'000*	For the six months ended 30 June 2013 *HK$'000* (Unaudited)	For the six months ended 30 June 2014 *HK$'000*
Salaries, allowances and benefit in kind	523	621	718	356	350
Pension scheme contributions	231	286	336	163	173
Total compensation paid to key management personnel	754	907	1,054	519	523

(b) Transactions with other related parties

Save as disclosed elsewhere in the Financial Information, the Target Group had not entered into any material related party transactions.

23. OPERATING LEASE

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group had outstanding commitments payable under non-cancellable operating leases in respect of properties rented with lease terms of between 1 to 2 years which fall due as follows:

	As at 31 December 2011	As at 31 December 2012	As at 31 December 2013	As at 30 June 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	312	314	417	205

24. SUBSEQUENT EVENTS

Save as disclosed elsewhere in the Financial Information, there was no significant event took place subsequent to the 30 June 2014.

25. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 30 June 2014.

Yours faithfully
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Shek Lui
Practising Certificate Number: P05895
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

(a) Business review for the year ended 31 December 2011

Operating results

For the year ended 31 December 2011, the Target was principally engaged in investment holding, and the principal asset of the Target was the entire equity interest in BJ Xinzhitang. The Target Group generated revenue of approximately HK$10.4 million with gross profit margin at approximately 64.2% during the year ended 31 December 2011. The Target Group recorded a profit after tax of approximately HK$3.7 million for the year ended 31 December 2011.

Property, plant and equipment

Most of the property, plant and equipment were motor vehicles which were mainly used by the management and customer services team to support business activities and to facilitate the mobility of employees in order to provide effective services.

Liquidity and financial resources

As at 31 December 2011, the Target Group's current assets amounted to approximately HK$37.5 million, which mainly included cash and cash equivalents of approximately HK$33.4 million.

As at 31 December 2011, the Target Group had an amount due to a shareholder of approximately HK$24.4 million, which was unsecured, interest-free and repayable on demand. As the Target Group had no bank borrowings, the gearing ratio of the Target Group as at 31 December 2011 was nil.

Capital structure and foreign exchange risk

During the year ended 31 December 2011, the Target Group financed its liquidity requirements through a combination of cash generated from operations of approximately HK$5.1 million and an amount due to a shareholder of approximately HK$24.4 million.

The Target Group adopted a prudent funding and treasury policy. The Target Group's monetary assets, loans and transactions were principally denominated in Hong Kong dollars and Renminbi. During the year ended 31 December 2011, the Target Group had not entered into any hedging arrangements. However, the management of the Target Group would constantly monitor the economic situation and its foreign exchange risk position, and would consider appropriate hedging measures in future when necessary.

Contingent liabilities and capital commitment

As at 31 December 2011, the Target Group did not have any material contingent liabilities and capital commitment.

Significant investments, material acquisitions and disposals

There were no significant investments, material acquisitions and disposals during the year ended 31 December 2011.

Employee and remuneration policies

As at 31 December 2011, the Target Group had 20 employees. Total staff costs for the year ended 31 December 2011 were approximately HK$1.8 million. Remuneration packages for employees were reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Charge on assets

As at 31 December 2011, no asset was pledged by the Target Group.

Future plans for material investments and acquisition of capital assets

There was no specific plan for material investments and acquisition of capital assets as at 31 December 2011.

(b) Business review for the year ended 31 December 2012

Operating results

For the year ended 31 December 2012, the Target was principally engaged in investment holding, and the principal asset of the Target was the entire equity interest in BJ Xinzhitang. The Target Group generated revenue of approximately HK$4.9 million with gross profit margin at approximately 73.5% during the year ended 31 December 2012 (2011: revenue of approximately HK$10.4 million with gross profit margin at approximately 64.2%). Since the teaching material of the Cambridge Young Learners English was revised in 2012, customers had reduced the number of orders until the launch of new edition in 2013, resulting in a decrease in revenue of the Target Group for the year ended 31 December 2012. The increase in gross profit margin was mainly attributable to stringent cost control measures. The Target Group recorded a reduced profit after tax of approximately HK$2.5 million for the year ended 31 December 2012 (2011: HK$3.7 million), which was primarily related to the decrease in the sales volume of the education software.

Property, plant and equipment

Most of the property, plant and equipment were motor vehicles which were mainly used by the management and customer services team to support business activities and to facilitate the mobility of employees in order to provide effective services.

Liquidity and financial resources

As at 31 December 2012, the Target Group's current assets amounted to approximately HK$39.2 million (2011: HK$37.5 million), which mainly included cash and cash equivalents of approximately HK$5.3 million (2011: HK$33.4 million), available-for-sale investments of approximately HK$27.0 million (2011: nil) and amount due from a related company of approximately HK$3.7 million (2011: nil) which has been fully settled subsequently. The available-for-sale investments related to an open-end asset portfolio wealth management product purchased by the Target Group through a licensed bank in the PRC for the purpose of generating a higher interest return.

As at 31 December 2012, the Target Group had an amount due to a shareholder of approximately HK$24.4 million (2011: HK$24.4 million) which was unsecured, interest-free and repayable on demand. As the Target Group had no bank borrowings, the gearing ratio as at 31 December 2012 was nil.

Capital structure and foreign exchange risk

During the year ended 31 December 2012, the Target Group financed its liquidity requirements through amount due to a shareholder of approximately HK$24.4 million (2011: HK$24.4 million).

The Target Group adopted a prudent funding and treasury policy. The Target Group's monetary assets, loans and transactions were principally denominated in Hong Kong dollars and Renminbi. During the year ended 31 December 2012, the Target Group had not entered into any hedging arrangements. However, the management of the Target Group would constantly monitor the economic situation and its foreign exchange risk position, and would consider appropriate hedging measures in future when necessary.

Contingent liabilities and capital commitment

As at 31 December 2012, the Target Group did not have any material contingent liabilities and capital commitment.

Significant investments, material acquisitions and disposals

There were no significant investments, material acquisitions and disposals during the year ended 31 December 2012.

Employee and remuneration policies

As at 31 December 2012, the Target Group had approximately 22 employees. Total staff costs for the year ended 31 December 2012 were approximately HK$2.1 million (2011: HK$1.8 million). Remuneration packages for employees were reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Charge on assets

As at 31 December 2012, no asset was pledged by the Target Group.

Future plans for material investments and acquisition of capital assets

There was no specific plan for material investments and acquisition of capital assets as at 31 December 2012.

(c) Business review for the year ended 31 December 2013

Operating results

For the year ended 31 December 2013, the Target was principally engaged in investment holding, and the principal asset of the Target was the entire equity interest in BJ Xinzhitang. The Target Group generated revenue of approximately HK$10.8 million with gross profit margin at approximately 79.6% during the year ended 31 December 2013 (2012: revenue of approximately HK$4.9 million with gross profit margin at approximately 73.5%). The increase in revenue of the Target Group for the year ended 31 December 2013 was mainly attributable to the increase in service fee income of approximately HK$4.2 million, of which approximately HK$3.4 million were generated from 3 new customers. As a result of stringent cost control measures taken, the gross profit margin was improved. The Target Group recorded an increased profit after tax of approximately HK$5.7 million for the year ended 31 December 2013 (2012: HK$2.5 million), which was mainly attributable to the increase in revenue generated from provision of technical support service.

Property, plant and equipment

Most of the property, plant and equipment were motor vehicles which were mainly used by the management and customer services team to support business activities and to facilitate the mobility of employees in order to provide effective services.

Liquidity and financial resources

As at 31 December 2013, the Target Group's current assets amounted to approximately HK$47.3 million (2012: HK$39.2 million), which mainly included cash and cash equivalents of approximately HK$7.6 million (2012: HK$5.3 million), available-for-sale investments of approximately HK$29.6 million (2012: HK$27.0

million) and amount due from related companies of approximately HK$5.1 million (2012: HK$3.7 million). The available-for-sale investment related to an open-end asset portfolio wealth management product purchased by the Target Group through a licensed bank in the PRC for the purpose of generating a higher interest return to the Target Group. In addition, the Target Group provided a short-term loan to related companies for general working capital purpose and such amount were subsequently fully settled.

As at 31 December 2013, the Target Group had an amount due to a shareholder of approximately HK$24.4 million (2012: HK$24.4 million), which was unsecured, interest-free and repayable on demand. As the Target Group had no bank borrowings, the gearing ratio of the Group as at 31 December 2013 was nil.

Capital structure and foreign exchange risk

During the year ended 31 December 2013, the Target Group financed its liquidity requirements through a combination of cash generated from operations of approximately HK$4.0 million (2012: cash used in operations of approximately HK$0.6 million) and an amount due to a shareholder of approximately HK$24.4 million (2012: HK$24.4 million).

The Target Group adopted a prudent funding and treasury policy. The Target Group's monetary assets, loans and transactions were principally denominated in Hong Kong dollars and Renminbi. During the year ended 31 December 2013, the Target Group had not entered into any hedging arrangements. However, the management of the Target Group would constantly monitor the economic situation and its foreign exchange risk position, and would consider appropriate hedging measures in future when necessary.

Contingent liabilities and capital commitment

As at 31 December 2013, the Target Group did not have any material contingent liabilities and capital commitment.

Significant investments, material acquisitions and disposals

There were no significant investments, material acquisitions and disposals during the year ended 31 December 2013.

Employee and remuneration policies

As at 31 December 2013, the Target Group had approximately 25 employees. Total staff costs for the year ended 31 December 2013 were approximately HK$2.6 million (2012: HK$2.1 million). Remuneration packages for employees were reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Charge on assets

As at 31 December 2013, no asset was pledged by the Target Group.

Future plans for material investments and acquisition of capital assets

There was no specific plan for material investments and acquisition of capital assets as at 31 December 2013.

(d) Business review for the six months ended 30 June 2014

Operating results

For the six months ended 30 June 2014, the Target was principally engaged in investment holding, and the principal asset of the Target was the entire equity interest in BJ Xinzhitang. The Target Group generated revenue of approximately HK$9.7 million with gross profit margin at approximately 93.1% during the six months ended 30 June 2014 (the six months ended 30 June 2013: revenue of approximately HK$1.0 million with gross profit margin at approximately 51.5%). The significant increase in revenue was mainly due to the increased sale orders by a distributor with exclusive distribution right. The increase of gross profit margin was due to the increase in selling prices and decrease in cost of the English Programs. The Target Group recorded a profit after tax of approximately HK$6.5 million for the six months ended 30 June 2014 (2013: loss of HK$0.7 million), which was mainly attributable to the increase in revenue generated from sale of products of approximately HK$8.0 million.

Property, plant and equipment

Most of the property, plant and equipment were motor vehicles which were mainly used by the management and customer services team to support business activities and to facilitate the mobility of employees in order to provide effective services.

Liquidity and financial resources

As at 30 June 2014, the Target Group's current assets amounted to approximately HK$54.2 million, which mainly included cash and cash equivalents of approximately HK$16.7 million, available-for-sale investments of approximately HK$20.0 million and amount due from related companies of approximately HK$7.4 million (2013: HK$5.1). The available-for-sale investment related to an open-end asset portfolio wealth management product purchased by the Target Group through a licensed bank is the PRC interest for the purpose of generating a higher interest return to the Target Group. The Target Group may continue such investment after Completion for the purpose of generating better returns for its idle cash. In addition, the Target Group provided a short-term loan to related companies for general working capital purpose, which has been fully settled subsequent to 30 June 2014. The Directors do not expect to provide such financial assistance to related companies after Completion.

As at 30 June 2014, the Target Group had an amount due to a shareholder of approximately HK$24.4 million, which was unsecured, interest-free and repayable on demand. As the Target Group had no bank borrowings, the gearing ratio of the Target Group as at 30 June 2014 was nil.

Capital structure and foreign exchange risk

During the six months ended 30 June 2014, the Target Group financed its liquidity requirements through a combination of cash generated from operations of approximately HK$0.4 million and an amount due to a shareholder of approximately HK$24.4 million.

The Target Group adopted a prudent funding and treasury policy. The Target Group's monetary assets, loans and transactions were principally denominated in Hong Kong dollars and Renminbi. During the six moths ended 30 June 2014, the Target Group had not entered into any hedging arrangements. However, the management of the Target Group would constantly monitor the economic situation and its foreign exchange risk position, and would consider appropriate hedging measures in future when necessary.

Contingent liabilities and capital commitment

As at 30 June 2014, the Target Group did not have any material contingent liabilities and capital commitment.

Significant investments, material acquisitions and disposals

There were no significant investments, material acquisitions and disposals during the six months ended 30 June 2014.

Employee and remuneration policies

As at 30 June 2014, the Target Group had 24 employees. Total staff costs for the six moths ended 30 June 2014 were approximately HK$1.3 million (2013: HK$1.3 million). Remuneration packages for employees were reviewed on a regular basis and principally comprised salaries, wages, contributions to defined contribution retirement plan and other benefits.

Charge on assets

As at 30 June 2014, no asset was pledged by the Target Group.

Future plans for material investments and acquisition of capital assets

There was no specific plan for material investments and acquisition of capital assets as at 30 June 2014.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Introduction to the Unaudited Pro Forma Financial Information

The following is the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group ("Unaudited Pro Forma Financial Information"), being the Group together with the Target Group, as if the Acquisition had been completed on 31 March 2014. Details of the Acquisition are set out in the letter from the Board contained in this circular.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules, for the purpose of illustrating the effect of the Acquisition pursuant to the terms of the Agreement entered into between the Purchaser with the Vendor.

The Unaudited Pro Forma Financial Information is prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2014, which has been extracted from the Company's published annual report for the year ended 31 March 2014 and the audited consolidated statement of financial position of the Target Group as at 30 June 2014 as extracted from the accountants' report of the Target Group thereon set out in Appendix II to this circular, and after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition, and (ii) factually supportable, as if the Acquisition was completed on 31 March 2014.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared by the Directors to provide information of the Group upon completion of the Acquisition. It is prepared for illustrative purpose only and based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group following the completion of the Acquisition as at 31 March 2014 or any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group set out in the annual report of the Company for the year ended 31 March 2014 and other financial information included elsewhere in this circular.

(2) Unaudited Pro Forma Financial Information of the Enlarged Group

	The Group as at 31 March 2014	The Target Group as at 30 June 2014	Pro forma adjustments		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
Non-current assets					
Property, plant & equipment	1,220	1,626			2,846
Trademark	2,188	—			2,188
Rental deposits	1,223	—			1,223
Goodwill	—	—	6,635		6,635
	4,631	1,626			12,892
Current assets					
Inventories	20,767	3,499			24,266
Trade and other receivables	6,888	14,039			20,927
Available-for-sale investments	—	20,000			20,000
Bank balances and cash	134,515	16,689	(60,000)	(2,375)	88,829
	162,170	54,227			154,022
Current liabilities					
Trade and other payables	12,696	1,436			14,132
Provision	5,531	—			5,531
Amount due to a shareholder	—	24,430	(24,430)		—
Tax payables	—	1,052			1,052
	18,227	26,918			20,715
Net current assets	143,943	27,309			133,307
Net assets	148,574	28,935			146,199

(3) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The balances were extracted from the audited consolidated statement of financial position of the Group as at 31 March 2014 as set out in the Company's published annual report for the year ended 31 March 2014.

2. The balances were extracted from the audited consolidated statement of financial position of the Target Group as at 30 June 2014 as set out in the accountants' report of the Target Group in Appendix II to this circular.

3. The Acquisition will be accounted for under the purchase method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

   For the purpose of this Unaudited Pro Forma Financial Information, the Directors had assumed that the carrying values of the identifiable assets and liabilities of the Target Group and the Sale Loan approximated to their fair values, which will be reassessed on the completion date of the Acquisition (the "Completion Date") together with the fair value assessment and recognition of additional intangible assets, if any, and the deferred tax impact in relation to temporary differences arising from application of purchase method of accounting.

   For the purpose of the preparation of the Unaudited Pro Forma Financial Information and for illustrative purpose, the recognition of goodwill arising from the Acquisition is analysed as follows:

	HK$'000
Consideration of the Acquisition *(note a)*	60,000
Less: Carrying value of the Sale Loan *(note b)*	(24,430)
	35,570
Less: Net carrying value of the identifiable assets and liabilities of the Target Group	(28,935)
Goodwill arising from the Acquisition *(note c)*	6,635

   Note a: Pursuant to the Agreement, the aggregate cash consideration of the proposed acquisition of the Sale Share and Sale Loan is HK$60,000,000.

   Note b: Being the assignment of the Sale Loan by the Vendor to a wholly-owned subsidiary of the Company upon completion of the Acquisition pursuant to the Agreement.

   Note c: For the purpose of this Unaudited Pro Forma Financial Information, the Company has assessed if there is any impairment loss on the goodwill arising from the Acquisition in accordance with the Hong Kong Accounting Standard 36 ("HKAS 36") "Impairment of Assets" issued by the HKICPA, which is consistent with the Group's accounting policy. The Directors are of the view that, after performing the impairment assessment, there is no impairment indication of the goodwill arising from the Acquisition with the assumed value as set out above. The Directors confirmed that they will apply consistent accounting policies to assess impairment of goodwill at least annually in accordance with the requirements of HKAS 36 and will disclose in the Company's annual report the basis and assumptions adopted by the Directors in the impairment assessment in accordance with the disclosure requirements in HKAS 36.

   Since the carrying values of the identifiable assets and liabilities of the Target Group used in the preparation of this Pro Forma Financial Information may be different from their fair values on the Completion Date, the goodwill or additional intangible assets, if any, and relevant deferred tax impact to be recognised in connection with the Acquisition on Completion Date could be different from the estimated amounts stated herein and is subject to change upon the finalisation of the valuation.

4. The adjustment represents the estimated acquisition-related costs of approximately HK$2,375,000 (including but not limited to service fee for legal and other professional parties) which would be expensed in profit or loss upon completion of the Acquisition. This adjustment will not have continuing profit or loss effect on the Enlarged Group.

5. Apart from the Acquisition, no other adjustments have been made to the Unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading results or other events of the Enlarged Group entered into subsequent to 31 March 2014.

2. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of an accountants' report received from the independent reporting accountants, Deloitte Touch Tohmatsu, Certified Public Accountants, Hong Kong, for inclusion in this circular, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in section 1 of this appendix.

Deloitte.
德勤

TO THE DIRECTORS OF TACK FIORI INTERNATIONAL GROUP LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Tack Fiori International Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 March 2014 and related notes (the "Pro Forma Financial Information") as set out in Appendix III of the circular issued by the Company dated 16 October 2014 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are set out in Appendix III of the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of China Education Media Limited and the entire amount of shareholder's loan due by China Education Media Limited to Mr. Wong Lik Ping (the "Acquisition") on the Group's financial position as at 31 March 2014 as if the Acquisition had taken place on 31 March 2014. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 March 2014, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2014 would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

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

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 October 2014

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Interests of the Directors or chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows:

Long Positions in the Shares

	Number of Shares held			
Name of Director	**Beneficial owner**	**Controlled corporation**	**Total**	**Approximate percentage of the issued share capital of the Company**
Mr. Wang *(Note)*	—	604,610,860	604,610,860	28.19%

Note: These interests are held by Cherrie Holdings Limited which is wholly-owned by Mr. Wang. Mr. Wang is therefore deemed to be interested in the Shares held by Cherrie Holdings Limited. The interests held by Cherrie Holdings Limited are also disclosed under the section headed "Interest of Substantial Shareholders" below.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives of the Company or their associates had or were deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or the chief executives were taken or deemed to have under such provisions of

SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

(ii) Interests of the Substantial Shareholders

So far as was known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, persons who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group, or held any option in respect of such capital were as follows:

Long Positions in the Shares

			Number of Shares held			Approximate percentage of the issued share capital
Name of Shareholders	*Notes*	**Capacity**	**Direct interests**	**Deemed interests**	**Total interests**	**of the Company**
Cherrie Holdings Limited	1	Beneficial owner	604,610,860	—	604,610,860	28.19%
Fidelitycorp Limited	2	Interest of controlled corporation	—	175,000,000	175,000,000	8.16%
Moon Light Investments Group Limited	2	Interest of controlled corporation	—	175,000,000	175,000,000	8.16%
Radford Developments Limited	2	Beneficial owner	175,000,000	—	175,000,000	8.16%
Freeman Financial Corporation Limited	—	Interest of controlled corporation	130,228,800	—	130,228,800	6.07%

Notes:

(1) These represent the same interests held by Mr. Wang as disclosed under the section headed "Interests of the Directors or chief executive of the Company" above. Cherrie Holdings Limited is wholly-owned by Mr. Wang. Mr. Wang is therefore deemed to be interests in the Shares held by Cherrie Holdings Limited.

(2) Radford Developments Limited is wholly-owned by Moon Light Investments Group Limited, which in turn is wholly-owned by Moon Light Trust. Fidelitycorp Limited is the trustee for Moon Light Trust. Moon Light Investments Group Limited and Fidelitycorp Limited are therefore deemed to be interested in the shares held by Radford Developments Limited.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors or chief executive of the Company were aware, no person had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group, or who had any options in respect of such capital.

3. DISCLOSURE OF OTHER INTERESTS

(i) Interests in contract or arrangement

As at the Latest Practicable Date, save for the Agreement, there was no contract or arrangement subsisting in which any Directors was materially interested and which was significant in relation to the business of the Enlarged Group.

(ii) Interests in assets

As at the Latest Practicable Date, save for the Acquisition, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group since 31 March 2014, being the date to which the latest published audited accounts of the Group were made up.

(iii) Interests in competing business

As at the Latest Practicable Date, none of the Directors and their respective associates had any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Enlarged Group.

5. MATERIAL CONTRACTS

Set out below are the contracts (not being contracts entered into in the ordinary course of business) entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date that are or may be material:

(i) the underwriting agreement dated 2 November 2012 entered into between the Company and Chung Nam Securities Limited in respect of the issue of one rights share for every two shares held on 15 November 2012 at HK$0.25 per rights share;

(ii) the placing agreement dated 20 December 2012 entered into between the Company and Freeman Securities Limited ("**Freeman Securities**"), pursuant to which Freeman Securities conditionally agreed to place 127,280,496 new Shares, on a fully underwritten basis, to not less than six placees at the placing price of HK$0.085 per Share;

(iii) the placing agreement dated 18 April 2013 entered into between the Company and Freeman Securities pursuant to which Freeman Securities conditionally agreed to place 22,910,489 new Shares, on a fully underwritten basis, to not less than six placees at the placing price of HK$0.54 per Share;

(iv) the placing agreement dated 26 September 2013 entered into between the Company and Enerchine Securities Limited ("**Enerchine Securities**") pursuant to which Enerchine Securities conditionally agreed to place up to 29,783,635 new Shares, on a best effort basis, to not less than six placees at the placing price of HK$0.59 per Share;

(v) the disposal agreement dated 8 November 2013 entered into between The Sound Chamber Limited ("**Sound Chamber**"), an indirect wholly-owned subsidiary of the Company, and Ninone Investment Limited ("**Ninone Investment**") pursuant to which Sound Chamber conditionally agreed to sell and Ninone Investment conditionally agreed to acquire the entire issued share capital of Brune Blonde Group Limited at a consideration of HK$8 million in cash;

(vi) the placing agreement dated 9 December 2013 entered into between the Company and Freeman Securities pursuant to which Freeman Securities conditionally agreed to place 35,740,362 new Shares, on a fully underwritten basis, to Cherrie Holdings Limited at the placing price of HK$2.16 per Share; and

(vii) the Agreement.

Save as disclosed above, there are no other contracts (not being contracts entered into in the ordinary course of business) entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and ending on the Latest Practicable Date, which are or may be material.

6. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation, claim or arbitration of material importance and there was no litigation, claim or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
Gram Capital Limited	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
HLB Hodgson Impey Cheng Limited	Certified Public Accountants

As at the Latest Practicable Date, none of the above experts had any direct or indirect shareholdings in any member of the Group, or any right to subscribe for or to nominate persons to subscribe for securities in any members of the Group, or any direct or indirect interests in any assets which have been acquired or disposed of by or leased to or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2014 (the date to which the latest published audited financial statements of the Group were made up).

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters or reports and references to its name in the form and context in which they appear.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the followings documents will be available for inspection during normal business hours on a business day at the office of the Company at Room 2201, 22/F, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

(i) the memorandum of association and articles of association of the Company;

(ii) the annual reports of the Company for each of the two financial years ended 31 March 2013 and 2014;

(iii) the letter from the Independent Board Committee, the text of which is set out on page 25 of this circular;

(iv) the letter of advice from Gram Capital, the text of which is set out on pages 26 to 36 of this circular;

(v) the accountants' report on the Target Group as set out in Appendix II to this circular;

(vi) the independent reporting accountants' assurance report on the compilation of pro forma financial information of the Enlarged Group as set out in Appendix III to this circular;

(vii) the material contracts referred to in the section headed "Material contracts" in this appendix;

(viii) the written consents of the experts referred to in the section headed "Experts and consents" in this appendix; and

(ix) this circular.

9. MISCELLANEOUS

(i) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is at Room 2201, 22/F, Kwan Chart Tower, No. 6 Tonnochy Road, Wanchai, Hong Kong.

(ii) The company secretary of the Company is Ms. Cheng Pui Yee, who is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

(iii) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

TACK FIORI INTERNATIONAL GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 928)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Tack Fiori International Group Limited (the "**Company**") will be held at 10:30 a.m. on Wednesday, 5 November 2014 at Lower Lobby, Plaza 3, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing with or without amendment the following resolution of the Company:

ORDINARY RESOLUTION

1. "**THAT**:

   (a) the conditional sale and purchase agreement which was entered into between Tack Fiori International Group Limited (a direct wholly-owned subsidiary of the Company) and Mr. Wong Lik Ping in relation to the acquisition of 100% of the issued shares in and shareholder's loan of China Education Media Limited (the "**Acquisition**") on 19 August 2014 (the "**Sale and Purchase Agreement**"), a copy of which has been produced to the Meeting and initialled by the chairman of the Meeting for the purpose of identification, and all transactions contemplated under the Sale and Purchase Agreement, including but not limited to the Acquisition in accordance with the terms and subject to the conditions set out in the Sale and Purchase Agreement be and are hereby approved, ratified and confirmed; and

(b) any one of the directors of the Company (the "**Directors**") be and are hereby authorised, for and on behalf of the Company, to take all steps necessary or expedient in his opinion to implement and/or give effect to the transactions contemplated by the Sale and Purchase Agreement including, but not limited to, the Acquisition, executing all other documents, instruments and agreements and doing all such acts and things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated under the Sale and Purchase Agreement or agree to such amendments of the same as are in the opinion of such Director not of a material nature and in the interests of the Company."

By order of the Board
Tack Fiori International Group Limited
Wang Liang
Chairman and Executive Director

Hong Kong, 16 October 2014

Notes:

1. A form of proxy to be used for the EGM is enclosed.

2. Any member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares of the Company may appoint one or more proxies to attend and vote instead of him/her. A proxy need not be a member of the Company.

3. The form of proxy must be signed by you or your attorney duly authorised in writing, or in the case of a corporation, must be under its seal or the hand of an officer, attorney or other person duly authorised.

4. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Delivery of any instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting, or poll concerned and, in such case, the instrument appointing a proxy shall deem to be revoked.

5. In the case of joint holders of a share, the vote of the person, whether attending in person or by proxy, whose name stands first on the register of members of the Company in respect of such share shall be accepted to the exclusion of the vote(s) of the other joint holder(s).

As at the date of this notice, the Board comprises the following Directors:

Executive Directors:
Mr. Wang Liang *(Chairman)*
Mr. Zhang Bao Yuan
Mr. Huang Limin

Independent Non-executive Directors:
Dr. Leung Shiu Ki, Albert
Mr. Yau Yan Ming, Raymond
Mr. Lau Yu