

# Third Quarterly Report 2008

Stock Code: 8055



**中国网络教育集团有限公司**  
**CHINA E-LEARNING GROUP LTD.**

(formerly known as Prosticks International Holdings Limited)  
(Incorporated in the Cayman Islands with limited liability)

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid reports in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of China E-Learning Group Limited, formerly known as ProSticks International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## RESULTS

The board (the “Board”) of directors (“Directors”) of China E-Learning Group Limited (formerly known as ProSticks International Holdings Limited) (the “Company”) is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the “Group”) for the nine months and three months ended 30 September 2008 together with the comparative unaudited figures of the corresponding period in 2007, as follows :

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
<b>Turnover</b>	3	<b>28,734</b>	2,497	<b>1,074</b>	420
Cost of sales		<b>(7,469)</b>	(2,247)	<b>(2,764)</b>	(378)
Gross profit (loss)		<b>21,265</b>	250	<b>(1,690)</b>	42
Other income	3	<b>148</b>	83	<b>12</b>	67
Administrative expenses		<b>(46,132)</b>	(2,145)	<b>(37,872)</b>	(545)
<b>Loss before taxation</b>		<b>(24,719)</b>	(1,812)	<b>(39,550)</b>	(436)
Taxation	4	<b>(3,729)</b>	—	<b>105</b>	—
<b>Loss for the period</b>		<b>(28,448)</b>	(1,812)	<b>(39,445)</b>	(436)
Dividend	6	—	—	—	—
<b>Basic loss per share</b>	5	<b>(3.53) cents</b>	(1.02) cents	<b>(4.05) cents</b>	(0.19) cents
<b>Diluted loss per share</b>	5	<b>(0.80) cents</b>	N/A	<b>(0.90) cents</b>	N/A

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements as set out in Chapter 18 of the GEM Listing Rules.

### 2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared under the historical cost convention and the accounting policies used in the preparation of the unaudited condensed consolidated quarterly financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

The adoption of the new standards, amendment and interpretations which become effective for accounting periods beginning on or after 1 January 2008 have had no material impact on the Group’s results of operations and financial position.

The Group has not early applied the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that have been issued but are not yet effective, in this quarterly financial report. The directors of the Company anticipate that the adoption of these standards and interpretations will have no material impact on the Group’s financial statements:

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK (IFRIC) — Interpretation 13	Customer Loyalty Programmes <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2008

### 3. TURNOVER AND OTHER INCOME

Turnover represents revenue of the Group from the operation of development and provision of operational software application products, and the provision of occupational education, industry certification course, skills training and education consultation. Turnover and other income recognized by category are as follows:

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>For the nine months ended 30 September</b>		<b>For the three months ended 30 September</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>				
System services and maintenance income	<b>77</b>	2,497	—	420
Online professional training and multi-media education products income	<b>28,657</b>	—	<b>1,074</b>	—
	<b>28,734</b>	2,497	<b>1,074</b>	420
<b>Other income</b>				
Interest income	<b>148</b>	81	<b>12</b>	66
Exchange gain	—	2	—	1
	<b>148</b>	83	<b>12</b>	67

#### 4. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the both periods.

Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), the statutory enterprise income tax rate of 25% is applied to the group companies which operated in the PRC.

The amount of taxation charged to the unaudited condensed consolidated profit and loss account represents:

	<b>(Unaudited)</b> <b>For the nine months</b> <b>ended 30 September</b>		<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 September</b>	
	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
PRC enterprise income tax	<b>3,729</b>	—	<b>(105)</b>	—

#### 5. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the ordinary equity holders of the Company is based on the following data:

	<b>(Unaudited)</b> <b>For the nine months</b> <b>ended 30 September</b>		<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 September</b>	
	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Unaudited loss for the period for the purpose of basic and diluted loss per share	<b>28,448</b>	1,812	<b>39,445</b>	436

<b>Number of shares</b>	<b>(Unaudited)</b> <b>For the nine months</b> <b>ended 30 September</b>		<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 September</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
Weighted average number of ordinary shares for the purpose of basic loss per share	<b>807,031,279</b>	177,031,299	<b>973,736,455</b>	228,901,865
Weighted average number of ordinary shares for the purpose of diluted loss per share	<b>3,553,082,249</b>	N/A	<b>4,389,667,301</b>	N/A

Diluted loss per share for the nine months and three months ended 30 September 2007 are not presented because the exercise of the Company's outstanding options would have an anti-dilutive impact.

**6. DIVIDEND**

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2008. (2007: nil).

**7. MOVEMENT OF RESERVES (UNAUDITED)**

	Share capital	Share premium	Share- Based payment reserve	Capital reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>As of 1 January 2007</b>	14,677	26,831	292	24,415	—	(67,475)	(1,260)
Loss for the period	—	—	—	—	—	(1,812)	(1,812)
Issue of new shares	10,195	14,781	—	—	—	—	24,976
Share issue expenses	—	(817)	—	—	—	—	(817)
Share issue under share option scheme	457	731	(226)	—	—	—	962
Forfeited share options expensed off to accumulated loss	—	—	(5)	—	—	5	—
<b>As of 30 September 2007</b>	25,329	41,526	61	24,415	—	(69,282)	22,049
<b>As of 1 January 2008</b>	25,364	41,562	5	24,415	—	(69,797)	21,549
Loss for the period	—	—	—	—	—	(28,448)	(28,448)
Issue of new shares by exercise of share option	18	13	—	—	—	—	31
Issue of placing shares	50,000	25,000	—	—	—	—	75,000
Share issue expenses	—	(1,975)	—	—	—	—	(1,975)
Share issue upon conversion of Convertible Notes	22,000	22,000	—	—	—	—	44,000
Employee share option benefits	—	—	24,632	—	—	—	24,632
Exchange differences on translation of the financial statements of PRC subsidiaries	—	—	—	—	312	—	312
<b>As of 30 September 2008</b>	97,382	86,600	24,637	24,415	312	(98,245)	(135,101)

## 8. SHARE OPTIONS

On 28 August 2008, share options in an aggregate amount of 97,000,000 share at an exercise price of HK\$0.43 per share were granted to the executive director of the Company, the staff of the Group and persons who have contributed or will contribute to the Group, under the share option scheme.

Share-based payment expenses recognized in administrative expenses are as follows:

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>For the nine months ended 30 September</b>		<b>For the three months ended 30 September</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Share-based payment expenses	<b>24,632</b>	—	<b>24,632</b>	—

## 9. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 September 2008 (31 December 2007: Nil).

## 10. COMMITMENTS

- (a) At 30 September 2008, the Group had the following commitments in respect of operating leases of rented premises and office equipment:

	<b>(Unaudited)</b>	(Audited)
	<b>30 September</b>	31 December
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>5,231</b>	—
In second to third year inclusive	<b>15,406</b>	—
	<b>20,637</b>	—



- (b) On 12 June 2008, Best Boom Enterprises Limited (“Best Boom”), being a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Multico Holdings Limited to purchase 61.27% of issued share capital of IIN Medical (BVI) Group Limited (“IIN Medical (BVI)”) at a consideration of up to RMB24,508,000 (or its equivalent, HK\$27,694,040) and 0.000033% of the issued share capital of IIN Medical Group Limited at a consideration of RMB13.33 (or its equivalent, HK\$15.06), with the total consideration up to RMB24,508,013.33 (or its equivalent, HK\$27,694,055.06) (the “Consideration A”). On the same day and as part of the acquisition, Best Boom also entered into another acquisition agreement with the minority investors of IIN Medical (BVI) to acquire 38.73% of the issued share capital of IIN Medical (BVI) at a consideration of up to RMB15,492,000 (or its equivalent, HK\$17,505,960) (the “Consideration B”).

The Consideration A of up to RMB24,508,013.33 (or its equivalent, HK\$27,694,055.06) shall be satisfied in the following manner:

- (i) HK\$3,390,000 in cash to be deposited with an escrow agent, which (including interest) shall be payable on or before the completion of the acquisition (“the Completion”);
- (ii) HK\$13,226,439.06 in cash to be payable upon the Completion;
- (iii) HK\$6,923,510 by the issue of convertible notes upon the Completion; and
- (iv) HK\$4,154,106 in cash to be payable within 10 business days:
  - (a) upon Hunan IIN Medical Network Technology Development Co., Ltd. (“Hunan IIN Medical Network”) having entered into the Renewal of the Joint Construction Agreement with Beijing University of Chinese Medicine; or
  - (b) from the expiry of the Joint Construction Agreement which is 1 August 2010, where, notwithstanding the Joint Construction Agreement having been terminated early, having yet to be Renewed or having not been Renewed, Distance Education College of Beijing University of Chinese Medicine will be able to receive tuition fees (in whatever amount) payable by the students thereof after the expiry of the Joint Construction Agreement; or

- (c) from the early termination or the expiry of the Joint Construction Agreement which is 1 August 2010 (whichever is earlier), where owing to any breach thereof on the part of Hunan IIN Medical Network, the Joint Construction Agreement having been terminated or having not been Renewed or where Distance Education College will not be able to receive tuition fees by legitimate means as it currently does pursuant to the Joint Construction Agreement.

The Consideration B of up to RMB15,492,000 (or its equivalent, HK\$17,505,960) shall be satisfied in the following manner :

- (i) HK\$2,260,000 in cash to be deposited with an escrow agent, which shall be payable upon the Completion;
- (ii) HK\$8,243,576 in cash to be payable upon the Completion;
- (iii) HK\$4,376,490 by the issue of convertible notes upon the Completion; and
- (iv) HK\$2,625,894 in cash to be payable:
  - (a) as to HK\$1,173,618 to Mr. Zhu Rong and Mr. Sun Guang Rong within 10 business days upon Hunan IIN Medical Network having entered into the Renewal of the Joint Construction Agreement with Beijing University of Chinese Medicine with the profit sharing percentage under the Renewed Joint Construction Agreement to which Hunan IIN Medical Network is entitled is no less than 51% and other terms and conditions thereunder are no less favourable than those in the Joint Construction Agreement; and
  - (b) as to HK\$1,452,276 to the vendors (excluding Mr. Zhu and Mr. Sun) within 10 business days upon (1) Hunan IIN Medical Network having entered into the Renewal of the Joint Construction Agreement with Beijing University of Chinese Medicine with the profit sharing percentage under the Renewed Joint Construction Agreement to which Hunan IIN Medical Network is entitled is no less than 51% and other terms and conditions thereunder are no less favourable than those in the existing Joint Construction Agreement; or (2) where, notwithstanding the Joint Construction Agreement having not been Renewed, Hunan IIN Medical Network will be able to receive the tuition fees payable by the students thereof up to year 2013 after 1 August 2010.


## 11. VERY SUBSTANTIAL ACQUISITION TRANSACTION

- (a) On 12 June 2008, Best Boom, being a wholly-owned subsidiary of the Company, entered into an acquisition agreement with Multico Holdings Limited to purchase 61.27% of issued share capital of IIN Medical (BVI) at a consideration of up to RMB24,508,000 (or its equivalent, HK\$27,694,040) and 0.000033% of the issued share capital of IIN Medical Group Limited at a consideration of RMB13.33 (or its equivalent, HK\$15.06), with the total consideration up to RMB24,508,013.33 (or its equivalent, HK\$27,694,055.06). On the same day and as part of the acquisition, Best Boom also entered into another acquisition agreement with the minority investors of the IIN Medical (BVI) to acquire 38.73% of the issued share capital of IIN Medical (BVI) at a consideration of up to RMB15,492,000 (or its equivalent, HK\$17,505,960). Upon the completion of the acquisition, Best Boom will be beneficially interested in the entire share capital of IIN Medical (BVI) and IIN Medical Group Limited.

On 5 August 2008, the Company has applied to the Stock Exchange for a waiver from the strict compliance with the Rule 19.38 of the GEM Listing Rules by extending the dispatch date of circular in relation to the very substantial acquisition from 5 August 2008 to a date falling on or before 19 September 2008.

On 19 September 2008, the Company has applied to the Stock Exchange for a waiver from the strict compliance with the Rule 19.38 of the GEM Listing Rules by extending the dispatch date of circular in relation to the very substantial acquisition from 19 September 2008 to a date falling on or before 5 November 2008.

On 5 November 2008, the Company has applied to the Stock Exchange for a waiver from the strict compliance with the Rule 19.38 of the GEM Listing Rules by extending the dispatch date of circular in relation to the very substantial acquisition from 5 November 2008 to a date falling on or before 9 February 2009.



- (b) On 20 August 2008, the Purchaser, a wholly owned subsidiary of the Company entered into a Letter of Intent with China Information Technology Development Limited (“CIT”), pursuant to which the Purchaser may (subject to the satisfaction of the Due Diligence Review and entering into of the Formal Agreement) acquire from CIT the entire issued share capital of the Target Company. The Target Company is principally engaged in development and sale of computer software and provision of system integration and related services.

## 12. POST BALANCE SHEET EVENTS

- (a) At the extraordinary general meeting of the Company held on 29 August 2008, a special resolution was passed by the shareholders to approve the change of name of the Company from “ProSticks International Holdings Limited” to “China E-Learning Group Limited 中國網絡教育集團有限公司”. The Certificate of Incorporation on Change of Name of the Company was issued by the Registrar of Companies in the Cayman Islands on 1 September 2008 and the Certificate of Registration of Change of Corporate Name of Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 17 October 2008. The stock short name of the Company for trading was changed to “Chi E-Learning” in English and “中國網絡教育” in Chinese with effect from 9:30 a.m. on 28 October 2008.
- (b) On 14 October 2008, 40,000,000 Shares were issued upon conversion of the Convertible Notes in a principal amount of HK\$8,000,000 and on 17 October 2008, 50,000,000 Shares were issued upon conversion of the Convertible Notes in a principal amount of HK\$10,000,000.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS OVERVIEW

#### Online professional training business

During the third quarter, the income of the Company mainly came from the management and training operations. However, the operations of the Company was sharply slowdown under the influence of Beijing Olympic Games and global economics crises.

#### Operational software application products

The segment revenue of operational software application products for the nine months ended 30 September 2008 was HK\$77,000 (2007: HK\$2,497,000), representing a reduction of approximately 97% compared with that of previous period. Reduction in segment revenue was recorded as the management identified fierce competition in the market of operational application software and the increasing operational costs. The Group therefore shifted its focus to developing the online professional training business and multi-media education products.


### FINANCIAL REVIEW

During the nine months ended 30 September 2008, the Group recorded turnover of approximately HK\$28,734,000, representing an increase of 1051% compared with approximately HK\$2,497,000 in last corresponding period.

During the nine months ended 30 September 2008, the Group has recorded a segment turnover of approximately HK\$28,657,000 accounting for approximately 99.7% of the Group's turnover, which mainly arose from online professional training business and multi-media education products.

The segment turnover of operational software application products for the nine months ended 30 September 2008 was HK\$77,000, accounting for approximately 0.3% of the Group's turnover.

The Group's net loss attributable to equity holders of the Company was approximately HK\$28,448,000 in contrast to net loss of approximately HK\$1,812,000 in last corresponding period. The increase in net loss mainly arose from share-based payment expenses of HK\$24,632,000 recognized in administrative expenses for the nine months ended 30 September 2008.



## Share capital

As at 1 July 2008, the authorized share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each and the issued share capital of the Company was HK\$97,364,185 divided into 973,641,850 shares of HK\$0.10 each.

During the month of September 2008, 177,625 shares were issued upon exercise of share options.

As at 30 September 2008, the authorized share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each and the issued share capital of the Company was HK\$97,381,948 divided into 973,819,475 shares of HK\$0.10 each

## Convertible Notes

As at 30 September 2008, the aggregate outstanding principal amount of the Convertible Notes was HK\$676,000,000. The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes would result in the issue and allotment of 3,380,000,000 new shares in the Company.

## OUTLOOK

In view of existing operations, proactive marketing strategy will be implemented to expand its sales in order to minimize the impact.

As to new operations including high school and pre-university programs, the Company is carrying out as scheduled in a systematic manner and making satisfactory progress. It is expected that new contracts will be secured in the next quarter and faster development will be observed in the year ahead.

The Company will endeavor to complete the acquisition of Network Education College of Beijing University of Chinese Medicine and Shanghai Pantosoft as early as possible and increase its revenue through engaging more effective integration of its resources.

## DIRECTORS' INTERESTS IN SHARES

As at 30 September 2008, the interests of the Directors and chief executive of the Company in the shares, underlying shares and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), 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; or pursuant to section 352 of the SFO, to be recorded in the register referred therein; or pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows :

### Long positions

#### (a) Shares or underlying shares of the Company

Name of Director	Capacity	Number of shares or underlying shares held	Approximate percentage of issued share capital (Note 2)
Chen Hong (Note 1)	Beneficial owner	90,000,000	9.24%

#### (b) Shares options

Name of Directors	Capacity	Number of options held	Number of underlying shares held	Approximate percentage of issued share capital (Note 2)
Chen Hong	Beneficial owner	9,500,000	9,500,000	0.976%
Liang Juan	Beneficial owner	2,000,000	2,000,000	0.205%
Wang Hui	Beneficial owner	9,000,000	9,000,000	0.924%
Wei Jianya	Beneficial owner	4,000,000	4,000,000	0.411%
Li Xiangjun	Beneficial owner	7,000,000	7,000,000	0.719%

Notes:

- Interests in the underlying shares represent the conversion rights attached to the convertible notes of a principal amount of HK\$18,000,000.
- The percentage shareholding is calculated based on the existing issued share capital of the Company as at 30 September 2008.

## INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS


As at 30 September 2008, so far as known to any Director or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had interests in the shares or short positions in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO:

### Long positions in shares or underlying shares of the Company

Name of Shareholder	Capacity	Number of shares or underlying shares held	Approximate percentage of issued share capital (Note 9)
Sino Tactic Group Limited (Note 1)	Beneficial owner	1,680,000,000	172.52%
Chen Xiaoming	Beneficial owner	200,000,000	20.54%
Atlantis Investment Management Ltd.	Beneficial owner	100,000,000	10.27%
Yang Dong Jun (Note 2)	Beneficial owner	614,736,000	63.13%
Huang Qun (Note 3)	Beneficial owner	318,616,000	32.72%
Chu Yuet Wah (Note 4 & 6)	Interest of controlled corporations	116,449,000	11.96%
Kingston Finance Limited (Note 5)	Security interest	80,000,000	8.21%
Ma Siu Fong (Note 6)	Interest of a controlled corporation	80,000,000	8.21%
林美良 (Note 7)	Beneficial owner	100,000,000	10.27%
Zhu Jing Jing (Note 8)	Beneficial owner	300,000,000	30.81%



## Notes:

1. Interests in the underlying shares represent the conversion rights attached to the convertible notes of a principal amount of HK\$336,000,000.
  2. Interests in 614,736,000 Shares or underlying shares comprise interest in 14,736,000 Shares and interest in 600,000,000 underlying shares representing the conversion rights attached to the convertible notes in the principal amount of HK\$120,000,000.
  3. Interests in 318,616,000 Shares or underlying shares comprise interest in 18,616,000 Shares and interest in 300,000,000 underlying shares representing the conversion rights attached to the convertible notes in the principal amount of HK\$60,000,000.
  4. Interests in 116,449,000 shares or underlying shares comprise interest in 36,449,000 shares held by Boyce Limited and security interest of an aggregate of 80,000,000 shares of Kingston Finance Limited. Boyce Limited is wholly owned by Rony Limited which is in turn wholly owned by Mrs. Chu Yuet Wah. Kingston Finance Limited has a security interest of an aggregate of 80,000,000 shares, of which 43,551,000 shares were held by Magic Key International Holdings Limited and 36,449,000 shares were held by Boyce Limited.
  5. Kingston Finance Limited has a security interest of an aggregate of 80,000,000 shares, of which 43,551,000 shares were held by Magic Key International Holdings Limited and 36,449,000 shares were held by Boyce Limited.
  6. Mrs. Chu Yuet Wah and Ms. Ma Siu Fong are controlling shareholders of Kingston Finance Limited. Both Mrs. Chu Yuet Wah and Ms. Ma Siu Fong are deemed to be interested in the underlying shares in which Kingston Finance Limited holds an interest.
  7. Interests in the underlying shares represent the conversion rights attached to the convertible notes of a principal amount of HK\$20,000,000.
  8. Interests in the underlying shares represent the conversion rights attached to the convertible notes of a principal amount of HK\$60,000,000.
  9. The percentage shareholding is calculated based on the existing issued share capital of the Company as at 30 September 2008.
- 

## Short positions in Shares of the Company

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of shares or underlying shares held</b>	<b>Approximate percentage of issued share capital (Note 2)</b>
Magic Key International Holdings Limited (Note 1)	Beneficial owner	43,551,000	4.47%
Boyce Limited (Note 1)	Beneficial owner	36,449,000	3.74%

### Notes:

1. As at 30 September 2008, 43,551,000 shares and 36,449,000 shares were held by Magic Key International Holdings Limited and Boyce Limited respectively. Magic Key International Holdings Limited is wholly owned by State Finance Group Holdings Limited which is in turn wholly owned by Mr. So Chi Ming. Boyce Limited is wholly owned by Rony Limited which is in turn wholly owned by Mrs. Chu Yuet Wah. Magic Key International Holdings Limited and Boyce Limited have pledged the 80,000,000 shares to secure a loan.
2. The percentage shareholding is calculated based on the existing issued share capital of the Company as at 30 September 2008.

Save as disclosed above, as at 30 September 2008, the Directors were not aware of any other persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO.

## **CORPORATE GOVERNANCE**

According to Rule 5.05 and 5.28 of the GEM Listing Rules, every board of directors of an issuer must include at least three independent non-executive directors and the audit committee must comprise a minimum of three members. Following the appointment of Dr. Huang Chung Hsing on 14 August 2008 as an independent non-executive director and a member of the audit committee of the Company, the Board has three independent non-executive Directors and audit committee comprises three members.

Therefore, the Company is now able and continue to strictly comply with the relevant requirements of the GEM Listing Rules


Save as disclosed above, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 in the GEM Listing Rules during the period under review.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

During the period under review, none of the Directors, substantial shareholders of the Company and their respective associates had any interest in any business that directly or indirectly competed or might compete with the business of the Group.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the nine months ended 30 September 2008.



## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the period under review.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. As at 30 September 2008, the committee comprised three independent non executive directors, namely Dr. Wong Yun Kuen, Ms. Chan Hoi Ling and Dr. Huang Chung Hsing.

The Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2008 have been reviewed by the audit committee, which were of the opinion that such statements have complied with the applicable accounting standards and that adequate disclosures have been made.

## **CHANGE OF DIRECTORS, AUTHORISED REPRESENTATIVE AND COMPLIANCE OFFICER**

On 14 August 2008, Dr. Huang Chung Hsing was appointed as an independent non-executive director of the Company. On 22 September 2008, Mr. Chan Chi Yuen has resigned as an executive director, the authorized representative and the compliance officer of the Company. On 22 September 2008, Ms. Wei Jianya and Mr. Li Xiangjun have been appointed as executive directors of the Company and Mr. Chen Hong has been appointed as the authorized representative and the compliance officer of the Company.

By order of the Board  
**China E-Learning Group Limited**  
**Chen Hong**  
*Chairman*

Hong Kong, 12 November 2008

*The board as of the date of this report comprises Mr. Chen Hong, Ms. Liang Juan, Ms. Wang Hui, Ms. Wei Jianya and Mr. Li Xiangjun as executive Directors, and Dr. Wong Yun Kuen, Ms. Chan Hoi Ling and Dr. Huang Chung Hsing as independent non-executive directors.*