2008

Annual Report

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)

Stock Code: 8055

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on The Stock Exchange. 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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim 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 (the "Directors") 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 of Hong Kong Limited (the "GEM Listing Rules") 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.

Contents

Corporate Information

Board of Directors	**Executive Directors** Mr. Chen Hong *(Chairman)* Ms. Liang Juan Ms. Wang Hui Ms. Wei Jianya Mr. Li Xiangjun **Independent Non-Executive Directors** Dr. Wong Yun Kuen Ms. Chan Hoi Ling Dr. Huang Chung Hsing
Company secretary	Mr. Cheng Man For
Authorized representatives	Mr. Chen Hong Mr. Cheng Man For
Compliance officer	Mr. Chen Hong
Registered office	Cricket Square Hutchins Drive P. O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business	Unit 3306, 33/F, West Tower, Shun Tak Centre 168-200 Connaught Road Central, Hong Kong
Principal bankers	Industrial and Commercial Bank of China Shenzhen Development Bank The Hongkong and Shanghai Banking Corporation Limited Standard Chartered Bank (Hong Kong) Limited
Principal share registrar and transfer office in the Cayman Islands	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 Grand Cayman KY1-1107 Cayman Islands
Branch share registrar and transfer office in Hong Kong	Tricor Tengis Limited 26/F Tesbury Centre 28 Queen's Road East Hong Kong
Auditor	Lo and Kwong C.P.A. Company Limited
Legal advisers	As to the Cayman Islands Law: Conyers Dill & Pearman, Cayman As to Hong Kong Law: D. S. Cheung & Co
Stock Code	8055
Company website	http://www.chinae-learning.com

Chairman's Statement

On behalf of the Board, I am pleased to present the annual results of China E-Learning Group Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008.

During the year, the Group completed the acquisition of New Beida Business StudyNet Group Limited ("New Beida") and its subsidiaries (collectively, "New Beida Group"), a group engaged in the provision of occupational education training, industry certification courses and educational consultation for the financial and banking industry in China. However, due to the outbreak of the U.S. subprime mortgage crisis that has grown into the global financial tsunami, enterprises become more conservative in investing in staff development. Also, individuals spend less in education because of the slowdown and uncertainty of job market. Given the changes in market condition which have adversely affected the performance of New Beida Group's operations, we have reassessed the recoverable amount of goodwill in relation to the acquisition of New Beida Group and an impairment loss of approximately HK$321,483,000 was recorded. As a result, a consolidated loss of approximately HK$365,862,000 was recorded for the year ended 31 December 2008, an increase of 15,318% compared with that of last year.

While the global financial tsunami has put the education sector on alert over the slowdown in demand, the Group will continue to provide our clients with quality training courses and educational products and develop training projects in different industries. On 27 February 2009, an ordinary resolution was passed in the extraordinary general meeting to approve an acquisition of a company engaged in the provision of occupational education training for the Chinese medicine industry. The management expects that the acquisition will be completed in April 2009 and this new business will broaden the Group's income and enhance the long-term growth potential of the Group.

Looking forward, we believe that China's long-term economic fundamentals remain sound in spite of the current market condition. With the increase in computer and internet usage, demand for online vocational certification and continuous education and training will increase significantly in the future. We will therefore continue to focus our market activities in China.

Finally, I would like to take this opportunity to express my sincere gratitude to the members of the Board of Directors and staff of the Group for their utmost support and contribution to the Group.

Chen Hong
Chairman

Hong Kong, 30 March 2009

FINANCIAL REVIEW

For the year ended 31 December 2008, the Group recorded a turnover of approximately HK$26,692,000 (2007: HK$2,756,000) representing an increase by 869% as compared to the previous year. The increase in turnover is mainly due to the acquisition of New Beida Group on 27 February 2008. Since then, the operational results of New Beida Group have been incorporated into the results of the Group.

The segment turnover of online professional training and multimedia education business and operational software application products for the year ended 31 December 2008 was approximately HK$26,615,000 and HK$77,000, accounting for approximately 99.8% and 0.2% of the Group's turnover, respectively.

In addition to the effect on incorporating New Beida Group's operational results into the Group's results, share options were granted to the management and share-based payment expenses of approximately HK$24,632,000 were recorded during the year under review. As a result, total administrative expenses of the Group increased from approximately HK$2,739,000 in 2007 to approximately HK$46,368,000 in 2008.

Due to the global economic crisis, the Group's business performance has been adversely affected during the year. Therefore, at 31 December 2008, the management reassessed the recoverable amount of goodwill associated with the acquisition of New Beida Group and an impairment loss of approximately HK$321,483,000 was recorded.

As a result, the consolidated loss for the year increased from approximately HK$2,373,000 in 2007 to approximately HK$365,862,000 in 2008.

Capital structure, liquidity and financial resources

The Group financed its business operations mainly with cash revenue generated from operating activities and additional funds raised by issuance of new shares. As at 31 December 2008, the Group had current assets of approximately HK$17,249,000 (2007: HK$22,580,000), including cash and bank balances of approximately HK$2,636,000 (2007: HK$22,567,000). The total non-current assets of the Group amounted to approximately HK$439,878,000 (2007: HK$46,000), which comprised goodwill, other intangible assets, financial derivative in relation to the convertible loan notes, plant and equipment and deposit. The total assets of the Group amounted to approximately HK$457,127,000 as at 31 December 2008 (2007: HK$22,626,000).

As at 31 December 2008, the Group did not have any outstanding bank borrowing. The total current liabilities of the Group amounted to approximately HK$3,819,000 (2007: HK$1,077,000), which mainly comprised the amounts due to directors and trade and other payables. The total non-current liabilities of the Group amounted to approximately HK$390,505,000 (2007: Nil), which comprised the convertible loan notes and other loan. The total liabilities of the Group amounted to approximately HK$394,324,000 (2007: HK$1,077,000). As at 31 December 2008, the Group had net assets of HK$62,803,000 (2007: HK$21,549,000). The gearing ratio of the Group, as expressed as the ratio of total liabilities to total assets, was approximately 0.86 as at 31 December 2008 (2007: 0.05).

On 5 February 2008, 500,000,000 ordinary shares of HK$0.10 each in the capital of the Company were issued and allotted at placing price of HK$0.15 per share pursuant to a placing agreement dated 4 October 2007. The gross proceeds from placing of new shares before issue expenses amounted to approximately HK$75,025,000.

On 14 February 2008, an ordinary resolution was passed in the extraordinary general meeting to approve the increase of authorized share capital of the Company from HK$80,000,000 divided into 800,000,000 shares of HK$0.10 each to HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each by the creation of additional 9,200,000,000 shares in order to accommodate future expansion and growth of the Company.

On 27 February 2008, the Company issued convertible notes (the "Convertible Notes") as partial settlement of the consideration for the acquisition of New Beida Group. The aggregate principal of the Convertible Notes amounted to HK$720,000,000. The Convertible Notes are interest free, repayable in 36 months from the date of issue and convertible into ordinary shares at conversion price of HK$0.20 per share, subject to adjustments.

Set out below are details of conversion of the Convertible Notes during the year:

Date of Conversion	**Principal Amount of the Convertible Notes**	**Number of Ordinary Shares Issued**
	HK$	
28 April 2008	4,000,000	20,000,000
9 May 2008	40,000,000	200,000,000
14 October 2008	8,000,000	40,000,000
17 October 2008	10,000,000	50,000,000
18 December 2008	10,000,000	50,000,000
23 December 2008	20,000,000	100,000,000
31 December 2008	40,000,000	200,000,000

In September 2008, 177,625 shares were issued upon exercise of share options.

Foreign exchange exposure

All the Group's assets, liabilities and transactions are denominated in Renminbi, Hong Kong dollar or United States dollar. Foreign exchange risk arising from the normal course of operations is considered to be minimal. The Group has no foreign currency borrowings and has not used any financial instrument for hedging purposes.

Contingent liabilities and charges on the Group's assets

There were no material contingent liabilities or charges on the Group's assets as at 31 December 2008.

OPERATIONAL REVIEW

Online professional training business

On 27 February 2008, the acquisition of New Beida Group was completed. Since then, the operational results of New Beida Group had been incorporated into the results of the Group. However, New Beida Group's results for the year were adversely affected by the global financial crisis.

In accordance with the acquisition agreement, the vendor and the guarantors to the acquisition agreement jointly and severally undertake to the purchaser, a wholly-owned subsidiary of the Company, that New Beida Group's audited consolidated profits after tax for the year ended 31 December 2008, calculated in accordance with the accounting principles generally accepted in Hong Kong, shall not be less than HK$150 million (the "Guaranteed Profit") and will compensate the Company on a dollar-for-dollar basis for any shortfall thereof. As New Beida Group incurred a loss of approximately HK$565,000 for the year ended 31 December 2008, part of the Convertible Notes in the principal amount of HK$150 million has been cancelled and the amount of loss incurred by New Beida Group has been set off against the amount due to former shareholder of New Beida (i.e. the vendor) as at 31 December 2008.

In addition, due to the current market condition, New Beida Group is not expected to generate profits and cash flows as originally forecasted. The management has therefore reassessed the recoverable amount of the goodwill in relation to the acquisition of New Beida Group. An impairment loss of approximately HK$321,483,000 was recorded and the goodwill was written down to approximately HK$326,115,000 as at 31 December 2008.

Operational software application products

As the management identified fierce competition in the market of operational application software and increasing operational costs, the Group shifted its focus to developing online professional training and multimedia education business during the year ended 31 December 2008.

Employee information

As at 31 December 2008, the Group had a total of 82 employees (including executive directors). For the year under review, the total staff costs amounted to approximately HK$32,985,000 (2007: HK$1,325,000), representing an increase of approximately 2,389% over the previous year. The increase in staff costs was mainly attributable to the acquisition of New Beida Group in February 2008.

The salaries and benefits of the Group's employees are kept at a market level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Staff benefits include contributions to mandatory provident fund and share options. Share options were granted to employees of the Group in the current year, details are set out in note 35 to the financial statements.

Future plans for material acquisitions

On 12 June 2008, the Group entered into certain acquisition agreements (as amended by certain supplemental agreements thereto) with vendors to acquire the entire interest in a company and its subsidiaries for a consideration of approximately HK$45,200,000. The acquired company is an investment holding company incorporated in the British Virgin Islands and its subsidiaries are principally engaged in the provision of distance learning courses of advanced Chinese medicine, distance continuing education of Chinese medicine and sub-healthiness services in China. On 27 February 2009, an ordinary resolution was passed in the extraordinary general meeting to approve the acquisition. It is expected to complete in April 2009.

PROSPECTS

Given the slowdown in demand for continued education in the financial industry, the management will continue to develop training projects in different industries and take initiative in identifying business opportunities in new emerging markets to broaden the Group's revenue sources.

In February 2009, the acquisition of the entire equity interest of a company engaged in the provision of distance learning courses of advanced Chinese medicine, distance continuing education of Chinese medicine and sub-healthiness services in the PRC was approved. It is expected to complete in April 2009.

The management is of the view that China's long term economic fundamentals remain sound albeit the current market condition. With the increase in computer and internet usage, demand for online vocational certification and continuous education and training will increase significantly in the future. In addition, with the increasing demand for Chinese medicine, certification and training in this sector will become an educational focus in the future. The Group's experience in online training, together with the expertise in providing training in Chinese medicine which the Group is acquiring, have provided the Group an advantage over other competitors to achieve the leading position in the field of Chinese medicine distance learning in China and to expand its overseas markets.

Meanwhile, the Group will continue to look for new business opportunities that may increase the shareholders' value of the Group and to further reduce the business risk of the Group by business diversification.

EXECUTIVE DIRECTORS

Mr. Chen Hong ("Mr. Chen"), aged 41, was appointed as an Executive Director and Chairman of the Company on 1 April 2008; and the authorised representative and compliance officer of the Company on 22 September 2008, Mr. Chen holds a Master of Business Administration from Peking University, China. Mr. Chen has previously worked in several technology companies and investment companies in China as senior management, and had extensive experience in corporate management and investment. Mr. Chen is mainly responsible for the strategy formulation of the Company.

Save as disclosed herein, Mr. Chen did not hold any directorships in any listed public company in the last three years.

Ms. Liang Juan ("Ms. Liang"), aged 34, was appointed as an Executive Director on 1 April 2008. Ms. Liang holds a diploma in administrative management from Sun Yat-Sen University, China. Ms. Liang is mainly responsible for general administration, personnel and financial management of the Company. Ms. Liang has years of management experience in private enterprise in China and she has worked for a number of large-scale private enterprises in China before joining the Company.

Save as disclosed herein, Ms. Liang did not hold any directorships in any listed public company in the last three years.

Ms. Wang Hui ("Ms. Wang"), aged 43, was appointed as an Executive Director on 10 July 2008. Ms. Wang holds a Master's degree in Finance and Investment from Renmin University of China and a Bachelor's degree in Design of Machine Manufacturing Equipment from Anhui University of Technology and Science. Ms. Wang has previously worked in an investment management company, a technology company and an online education training company as a member of the senior management. She has extensive experience in strategic planning, investment management and online education operation. Ms. Wang is the director of New Beida Business StudyNet Group Limited, a wholly-owned subsidiary of the Company.

Save as disclosed herein, Ms. Wang did not hold any directorships in any listed public company in the last three years.

Ms. Wei Jianya ("Ms. Wei"), aged 40, was appointed as an Executive Director on 22 September 2008. Ms. Wei holds a Bachelor's degree in commerce and financial accounting from Zhejiang Gongshang University (formerly known as Hangzhou University of Commerce). Ms. Wei is a Certified Public Accountant registered in the PRC and Chinese Certified Public Tax Consultant. She previously worked in PRC accounting firms and PRC listed companies and has extensive experience in financial management and investment advisory.

Save as disclosed herein, Ms. Wei did not hold any directorship in any listed public company in the last three years.

Mr. Li Xiangjun ("Mr. Li"), aged 37, was appointed as an Executive Director on 22 September 2008. Mr. Li holds a Bachelor's degree in laws. He received a Bachelor degree in laws in 1996. In 2003, he obtained the certificate of graduation from the master degree program for international economic law of the University of International Business and Economics. Mr. Li has been engaged in the legal services industry since 1999. He is currently a practicing lawyer in the PRC and a member of the Beijing Lawyers' Association. He was a partner of the Beijing Genesis Law Firm and Beijing Tianshi Law Firm, and is currently a practising lawyer of the Beijing Yanda Law Firm. He used to be the Corporate Law Consultant or Legal Consultant for Special Affairs for large state-owned enterprises, including China FAW Group, Lenovo Group and China Life Insurance Group, and large foreign enterprises, including Asia Link Group Inc., Zhenglin Food Co., Ltd. and Dongguan Hsu Chi Foods Company Limited. Mr. Li was an executive director of Wonderful World Holdings Limited ("WWHL"), the shares of which are listed on the Main Board of Stock Exchange for the period from 14 June 2007 to 15 August 2008.

Save as disclosed herein, Mr. Li did not hold any other directorship in any listed public company in the last three years.

As at the Latest Practicable Date, the interests or short positions of the above executive Directors in the Shares or underlying shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") are disclosed under the paragraph headed "Directors and chief executive of the Company" of the section headed "Disclosure of interests" in this Appendix.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Wong Yun Kuen ("Dr. Wong"), aged 51, was appointed as an Independent Non-Executive Director and a member of audit committee of the Company on 1 August 2007. Dr. Wong received his Ph.D. degree from Harvard University, and was a "Distinguished Visiting Scholar" in finance at the Wharton School of the University of Pennsylvania and a consultant at AIG Financial Products Corp. of USA. Dr. Wong has extensive experience in corporate finance, investment and derivative products. In addition, Dr. Wong was a consultant to a supercomputer firm on application software, and has participated in the development of e-commerce software and platforms. He is a member of Hong Kong Securities Institute.

Dr. Wong is also an executive director of UBA Investments Limited (Stock code: 768), and an independent non-executive director of Harmony Asset Limited (Stock code: 428), Grand Field Group Holdings Limited (Stock code: 115), Kaisun Energy Group Limited (Stock code: 8203), China Yunnan Tin Minerals Group Company Limited (Stock code: 263), Bauhaus International (Holdings) Limited (Stock code: 483), Golden Resorts Group Limited (Stock code: 1031), Superb Summit International Timber Company Limited (Stock code: 1228), Kong Sun Holdings Limited (Stock code: 295) and Climax International Company Limited (Stock code: 439).

Save as disclosed herein, Dr. Wong does not hold any other position in the Company or any of its subsidiaries nor did he hold any directorships in any listed public company in the last three years. As at the Latest Practicable, Dr. Wong did not have, and was not deemed to have, any interest in any Shares or underlying shares of the Company within the meaning of Part XV of the SFO.

Ms. Chan Hoi Ling ("Ms. Chan"), aged 35, was appointed as an Independent Non-Executive Director and chairman of audit committee of the Company on 1 August 2007. Ms. Chan graduated from the University of South Australia with a Bachelor's degree in Accountancy. Ms. Chan has extensive experience in auditing and financial management. Ms. Chan is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Ms. Chan has been as an independent non-executive director of Climax International Company Limited (Stock Code: 439) from 26 June 2007 to 13 May 2008 and then re-designated as an executive director of Climax International Company Limited (Stock code: 439) with effect from 13 May 2008.

Save as disclosed herein, Ms. Chan does not hold any other position in the Company or any of its subsidiaries nor did she hold any directorships in any listed public company in the last three years. As at the Latest Practicable Date, Ms. Chan did not have, and was not deemed to have any interests in Shares or underlying shares of the Company within the meaning of Part XV of the SFO.

Dr. Huang Chung Hsing ("Dr. Huang"), aged 55, was appointed as an Independent Non-Executive Director and a member of audit committee of the Company on 14 August 2008. Dr. Huang holds a Ph.D. degree in Management Science and Information Systems from the University of Texas at Austin, U.S.A. and a Bachelor's degree of Science in Electrical Engineering from National Taiwan University. Dr. Huang is the dean of School of Professional and Continuing Studies and the associate professor of Department of Business Administration of National Taiwan University. He is also the chairman of the Committee of Service Management of Chinese Management Association in Taiwan, the advisor of Supervising Committee of Joint Municipal Hospital of Taipei City and the associate researcher of Health Management Center of National Taiwan University Hospital in Taiwan. He has previously held senior positions in various universities and banks such as Beijing University in China and Bank of SinoPac. Dr. Huang has extensive experience in service operation management, business decision making and management of innovation.

Save as disclosed above, Dr. Huang does not hold any other position in the Company or any of its subsidiaries nor did he hold any directorship in any public listed company in the last three years. As at the Latest Practicable Date, Dr. Huang did not have, and was not deemed to have any interest in any Shares or underlying shares of the Company within the meaning of Part XV of the SFO.

The board (the "Board") of directors (the "Directors") of China E-Learning Group Limited (the "Company") presents herewith the annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the extraordinary general meeting held on 29 August 2008 and issuance of the Certificate of Incorporation on Change of Name by the Registrar of Companies in the Cayman Islands and the Registrar of Companies in Hong Kong on 1 September 2008 and 17 October 2008 respectively, the name of the Company has been changed from "ProSticks International Holdings Limited" to "China E-Learning Group Limited 中國網絡教育集團有限公司".

The stock short name, under which the shares of the Company be traded on GEM, has been changed to "Chi E-Learning" in English and "中國網絡教育" in Chinese with effect from 28 October 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 20 to the financial statements.

RESULTS AND DIVIDEND

The Group's results for the year ended 31 December 2008 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 25 to 27.

The Directors do not recommend payment of any final dividend in respect of the reporting year (2007: HK$Nil).

SUMMARY FINANCIAL INFORMATION

The following is a summary of the audited consolidated results of the Group for each of the five years ended 31 December prepared on the basis set out in the note below:

	2008 **HK$'000**	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000 (Restated)
Turnover	**26,692**	2,756	6,714	11,656	8,556
Loss before tax	**364,403**	2,373	515	4,056	9,673
Net loss after tax	**365,862**	2,373	515	4,056	9,673
Total assets	**457,127**	22,626	974	3,652	3,935
Total liabilities	**394,324**	1,077	2,234	13,123	9,317

Note: The figures for the year ended 31 December 2004 have been restated in accordance with the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants. The figures for the years ended 31 December 2006 and 2005 were extracted from the Company's 2006 annual report.

CHARITABLE DONATION

During the year, the Group made charitable donation of approximately HK$738,000 (2007: HK$Nil).

PLANT AND EQUIPMENT

Movements of plant and equipment are set out in note 19 to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 20 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in the Company's share capital and share options during the year are set out in notes 27 and 35 to the financial statements respectively.

CONVERTIBLE NOTES

Details of movements in the Company's convertible notes during the year are set out in note 34 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 28 and note 28 to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company did not have any reserve available for cash distribution (2007: HK$Nil). In accordance with the laws of the Cayman Islands and the Company's Articles of Association, the Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions of pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which oblige the Company to offer new shares on a pro rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

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 year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales	
— the largest customer	40%
— five largest customers	85%
Purchases	
— the largest supplier	40%
— five largest suppliers	53%

None of the Directors, their associates or shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

DIRECTORS

The Directors of the Company during the financial year and at the date of this report were:

Executive Directors

Mr. Chen Hong	(appointed on 1 April 2008)
Ms. Liang Juan	(appointed on 1 April 2008)
Ms. Wang Hui	(apponted on 10 July 2008)
Ms. Wei Jianya	(apponted on 22 September 2008)
Mr. Li Xiangjun	(apponted on 22 September 2008)
Ms. Tsang Wing Yee	(resigned on 1 April 2008)
Mr. Chan Chi Yuen	(resigned on 22 September 2008)
Ms. Chan Siu Mun	(resigned on 1 April 2008)

Independent Non-Executive Directors

Dr. Wong Yun Kuen
Ms. Chan Hoi Ling
Dr. Huang Chung Hsing (appointed on 14 August 2008)

The Company has received from each of the Independent Non-Executive Directors the annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that all Independent Non-Executive Directors are independent to the Group in accordance with the terms of the guidelines as set out in Rule 5.09 of the GEM Listing Rules.

In accordance with Article 86(3) of the Company's Articles of Association, Ms. Wang Hui, Ms. Wei Jianya, Mr. Li Xiangjun, and Dr. Huang Chung Hsing will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Mr. Chen Hong, Ms. Liang Juan, Ms. Wang Hui, Ms. Wei Jianya and Mr. Li Xiangjun have entered into service contracts with the Company for a term of three years. These service contracts may be terminated by either party giving not less than three months' notice to the other party.

All the Independent Non-Executive Directors have not been appointed for a specific term.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in note 33 to the financial statements, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the Directors and the five highest paid employees in the Group are set out in note 13 to the financial statements respectively.

EMOLUMENT POLICY

The Group remunerates its employees, including its Directors, based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical cover as well as share option scheme. Details of share option scheme are set out in note 35 to the financial statements.

The determination of emoluments of the Directors of the Company had taken into consideration of their expertise and job specifications.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2008, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares or underlying shares of the Company

Name of Directors	Capacity	Number of shares or underlying shares held Ordinary shares	 Share options	 Total	Percentage of issued share capital
Chen Hong	Beneficial owner	90,000,000	9,500,000	99,500,000	7.04%
Li Xiangjun	Beneficial owner	100,000,000	7,000,000	107,000,000	7.57%
Wang Hui	Beneficial owner	—	9,000,000	9,000,000	0.64%
Liang Juan	Beneficial owner	—	2,000,000	2,000,000	0.14%
Wei Jianya	Beneficial owner	—	4,000,000	4,000,000	0.28%

Save as disclosed above, as at 31 December 2008, none of the other Directors or chief executive of the Company had any interest or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, so far as known to any Director or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares and 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 position in shares or underlying shares of the Company

Name of Shareholder	Capacity	Number of shares or underlying shares held	Percentage of issued share capital
Yang Dong Jun (Note 1)	Beneficial owner	614,736,000	43.48%
Huang Qun (Note 2)	Beneficial owner	318,616,000	22.54%
Gong Di Qing (Note 3)	Beneficial owner	300,250,000	21.24%
Chen Xiaoming	Beneficial owner	167,928,000	11.88%
Atlantis Investment Management Ltd	Investment manager	160,000,000	11.32%
GE Asset Management Incorporated	Investment manager	86,384,000	6.11%
Chu Yuet Wah (Note 4)	Interest of controlled corporations	80,000,000	5.66%
Sino Tactic Group Limited (Note 5)	Beneficial owner	1,640,000,000	116.00%

Notes:

1. Interests in 614,736,000 Shares or underlying Shares comprise interest in 114,736,000 Shares and interest in 500,000,000 underlying Shares representing the conversion rights attached to the convertible notes in the principal amount of HK$100,000,000.

2. Interests in 318,616,000 Shares or underlying Shares comprise interest in 118,616,000 Shares and interest in 200,000,000 underlying Shares representing the conversion rights attached to the convertible notes in the principal amount of HK$40,000,000.

3. Interests in 300,250,000 Shares or underlying Shares comprise interest in 250,000 Shares and interest in 300,000,000 underlying Shares representing the Conversion rights attached to the connectible notes in the principal amount of HK$60,000,000.

4. Interests in 80,000,000 Shares or underlying Shares comprise interest in 36,449,000 Shares held by Boyce Limited and security interest of an aggregate of 43,551,000 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 43,551,000 Shares held by Magic Key International Holdings Limited.

5. Interests in the underlying Shares represent the conversion rights attached to the convertible notes of a principal amount of HK$328,000,000.

Save as disclosed above, as at 31 December 2008, the Directors were not aware of any other persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and 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.

INTEREST IN COMPETING BUSINESS

During the year under review, neither the Directors nor the substantial shareholders of the Company and their respective associates had any interest in business that compete, either directly or indirectly, with the business of the Group.

AUDITORS

On 16 December 2008, Messrs. Laks & Associates C.P.A. Limited resigned as auditors of the Company and Messrs. Lo and Kwong C.P.A. Company Limited were appointed by the Directors on 19 December 2008 to fill the vacancy so arising.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Lo and Kwong C.P.A. Company Limited as auditors of the Company.

On Behalf of the Board

Chen Hong
Executive Director

Hong Kong
30 March 2009

The Company is committed to maintaining high standard of corporate governance and has applied the principles set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 to the GEM Listing Rules by making its best effort (i) to respect the rights of the shareholders and fully recognize the legitimate interests of the shareholders; (ii) to disclose information to shareholders in a timely manner and to increase the transparency of the Company; (iii) to enhance the risk management and internal control policies of the Company; and (iv) to maintain responsible decision making so as to safeguard the interests of the shareholders and the Company as a whole.

Save as the deviations as disclosed in this report, the Company has complied with all the code provisions on corporate governance practices as set out in the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2008.

BOARD OF DIRECTORS AND BOARD MEETING

The Board of Directors, which currently comprises five Executive Directors, namely Mr. Chen Hong, Ms. Liang Juan, Ms. Wang Hui, Ms. Wei Jianya and Mr. Li Xiangjun and three Independent Non-Executive Directors, namely Dr. Wong Yun Kuen, Ms. Chan Hoi Ling and Dr. Huang Chung Hsing, is responsible for the overall management of the Group. It focuses on directing the corporate strategies and supervising the business and significant affairs of the Group while the duties of the daily operation management are delegated to the management of the Company.

According to Rules 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. However, during the period from 1 January 2008 to 13 August 2008, the Board had only two independent non-executive Directors and the audit committee comprised only two members. Therefore, the Company was unable to strictly comply with the relevant requirements of the GEM Listing Rules during the aforementioned period.

Mr. Chen Hong and Ms. Wang Hui are the chairman and chief executive officer of the Company respectively and their roles are clearly segregated.

No service contracts have been entered into between the Independent Non-Executive Directors and the Company. Each of the Independent Non-Executive Directors is subject to retirement by rotation and re-election at the annual general meeting in accordance with the articles of association of the Company.

The Board held 32 meetings during the year ended 31 December 2008 and the attendance of each Director at the board meetings are set out as follows:

Executive Directors:	**Attendance**
Mr. Chen Hong (Note 1)	24/28
Ms. Liang Juan (Note1)	26/28
Ms. Wang Hui (Note 2)	15/21
Ms. Wei Jianya (Note 3)	6/11
Mr. Li Xiangjun (Note 3)	10/11
Ms. Tsang Wing Yee (Note 4)	2/4
Mr. Chan Siu Mun (Note 4)	4/4
Mr. Chan Chi Yuen (Note 5)	12/19
Independent Non-Executive Directors:	
Dr. Wong Yun Kuen	7/32
Ms. Chan Hoi Ling	7/32
Dr. Huang Chung Hsing (Note 6)	4/16

Notes:

(1) Appointed on 1 April 2008.
(2) Appointed on 10 July 2008.
(3) Appointed on 22 September 2008.
(4) Resigned on 1 April 2008.
(5) Resigned on 22 September 2008.
(6) Appointed on 14 August 2008.

AUDIT COMMITTEE

The Company's audit committee was established on 26 November 2001 for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. The committee comprises three independent non-executive Directors, namely Ms. Chan Hoi Ling (the chairman of the committee), Dr. Wong Yun Kuen and Dr. Huang Chung Hsing.

In 2008, the audit committee held 4 meetings and details of the attendance of each member of the committee are set out as follows:

Committee Members	Attendance
Ms. Chan Hoi Ling	4/4
Dr. Wong Yun Kuen	4/4
Dr. Huang Chung Hsing (appointed on 14 August 2008)	2/2

During the year, the audit committee, together with the external auditors, have reviewed the accounting policies and methods adopted by the Group and discussed with the management of the Company, inter alia, the matters relating to internal control and financial statements of the Company. Relevant recommendations have been made to the management.

REMUNERATION COMMITTEE

The remuneration committee was established on 23 March 2005 with major functions of (i) making recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management of the Group; and (ii) determining the remuneration packages of all Directors and senior management of the Group; and (iii) reviewing and approving the performance-based remuneration.

The remuneration committee of the Company is chaired by Mr. Chen Hong. Other members include Dr. Wong Yun Kuen and Ms. Chan Hoi Ling. The majority of the members of the remuneration committee are independent non-executive Directors.

During the year ended 31 December 2008, a meeting of the remuneration committee was held. All members of the remuneration committee, at the time being, attended the meeting. The Company's policy for the remuneration of Directors was discussed in the meeting and no changes on the policy were recommended by the remuneration committee.

NOMINATION OF DIRECTORS

The Company has not set up a nomination committee, and Directors are nominated by existing member(s) of the Board. Board members, except the one who nominates the candidate, shall assess the candidate's suitability of becoming a board member with reference to the nominated candidate's qualification, working experience, past performance and requirements of the Company and relevant provisions in the GEM Listing Rules.

In the meeting held by the Board, it was resolved that all the existing Directors would be recommended to be retained by the Company. Furthermore, in accordance with Article 86(3) of the Company's Articles of Association, all existing directors, save as Mr. Chen Hong, Ms. Liang Juan, Dr. Wong Yun Kuen amd Ms. Chan Hoi Ling, shall retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

AUDITOR'S REMUNERATION

An audit fee of approximately HK$300,000 was charged to the Group's income statement for the year ended 31 December 2008.

INTERNAL CONTROL

The Company has conducted a review, which covered the major control procedures in areas of financial and operations of the Company, on the internal control system of the Group and was satisfied with the effectiveness of the Group's internal control procedures.

FINANCIAL STATEMENTS

The responsibilities of the Directors for preparing the financial statements and the auditor's reporting responsibilities on the financial statements are set out in the auditor's report contained in this annual report.

盧鄺會計師事務所有限公司
LO AND KWONG C.P.A. COMPANY LIMITED
Audit • Tax • Business Advisory

TO THE SHAREHOLDERS OF CHINA E-LEARNING GROUP LIMITED
(FORMERLY KNOWN AS PROSTICKS INTERNATIONAL HOLDINGS LIMITED)
INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY

We have audited the financial statements of China E-Learning Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 76, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 2 in the financial statements which indicates that the Group recorded a loss from operations of approximately HK$351,814,000 for the year ended 31 December 2008. In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning the adoption of the going concern basis for the preparation of the financial statements. As set out in note 2 to the financial statements, after considering the maturity dates of (i) other loan; and (ii) convertible loan notes, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Moreover, the Group will have sufficient working capital to meet in full its financial obligations as and when they fall due for the next twelve months from 31 December 2008. Accordingly, the financial statements have been prepared on a going concern basis, the validity of which depends upon the extension of the maturity dates of other loan and convertible loan notes amount on maturity date. The financial statements do not include any adjustments that would result from a failure of the Group to extend the maturity dates of such liabilities. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

Lo and Kwong C.P.A. Company Limited
Certified Public Accountants
Lo Wah Wai
Practising Certificate Number: P02693

Suite 1304, 13/F.,
Shanghai Industrial Investment Building,
60 Hennessy Road,
Wanchai, Hong Kong

Hong Kong
30 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	**2008** **HK$'000**	2007 HK$'000
Turnover	8	**26,692**	2,756
Cost of sales		**(8,659)**	(2,534)
Gross profit		**18,033**	222
Other income	9	**161**	174
Selling expenses		**(2,157)**	—
Administrative expenses		**(46,368)**	(2,739)
Goodwill impairment	17	**(321,483)**	—
Other operating expense	10	**—**	(30)
Loss from operations		**(351,814)**	(2,373)
Finance cost, net	11	**(12,589)**	—
Loss before tax	12	**(364,403)**	(2,373)
Income tax expense	14	**(1,459)**	—
Loss for the year attributable to the equity holders of the Company		**(365,862)**	(2,373)
Dividend	15	**—**	—
Loss per share	16		
— Basic		**(41.86 cent)**	(1.21 cent)
— Diluted		**N/A**	N/A

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Goodwill	17	**326,115**	—
Other intangible assets	18	**36,907**	—
Plant and equipment	19	**6,751**	46
Financial derivative	34	**64,455**	—
Deposit	37	**5,650**	—
		439,878	46
CURRENT ASSETS			
Inventories	21	**25**	—
Trade and other receivables	22	**12,478**	13
Tax recoverable		**2,110**	—
Cash and bank balances	23	**2,636**	22,567
		17,249	22,580
CURRENT LIABILITIES			
Trade and other payables	24	**3,568**	997
Amounts due to directors	25	**251**	80
		3,819	1,077
NET CURRENT ASSETS		**13,430**	21,503
TOTAL ASSETS LESS CURRENT LIABILITIES		**453,308**	21,549
CAPITAL AND RESERVES			
Share capital	27	**141,382**	25,364
Reserves	28	**(78,579)**	(3,815)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**62,803**	21,549
NON-CURRENT LIABILITIES			
Other loan	30	**49,435**	—
Convertible loan notes	34	**341,070**	—
		390,505	—
		453,308	21,549

The financial statements on pages 25 to 76 were approved and authorised for issue by the Board of Directors on 30 March 2009 and are signed on its behalf by:

CHEN HONG	**WANG HUI**
DIRECTOR	*DIRECTOR*

Balance Sheet

At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Plant and equipment	19	**7**	—
Investments in subsidiaries	20	**326,127**	12
Financial derivative	34	**64,455**	—
Deposit	37	**5,650**	—
		396,239	12
CURRENT ASSETS			
Trade and other receivables	22	**931**	—
Amounts due from subsidiaries	20	**81,657**	8,705
Cash and bank balances	23	**18**	13,663
		82,606	22,368
CURRENT LIABILITIES			
Trade and other payables	24	**776**	825
Amounts due to directors	25	**250**	80
Amounts due to subsidiaries	20	**80,098**	—
		81,124	905
NET CURRENT ASSETS		**1,482**	21,463
TOTAL ASSETS LESS CURRENT LIABILITIES		**397,721**	21,475
CAPITAL AND RESERVES			
Share capital	27	**141,382**	25,364
Reserves	28	**(84,731)**	(3,889)
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**56,651**	21,475
NON-CURRENT LIABILITIES			
Convertible loan notes	34	**341,070**	—
		397,721	21,475

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Notes	Share capital HK$'000	Share premium HK$'000	Share-based payment reserve HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Conversion note equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007		14,677	26,831	292	24,415	—	—	(67,475)	(1,260)
Loss for the year		—	—	—	—	—	—	(2,373)	(2,373)
Issue of shares by placement	27	2,958	7,543	—	—	—	—	—	10,501
Issue of shares by open offer	27	7,237	7,237	—	—	—	—	—	14,474
Share issue expenses		—	(816)	—	—	—	—	—	(816)
Issue of shares by exercise of share options	27	492	767	(236)	—	—	—	—	1,023
Forfeited share options expensed off to accumulated losses		—	—	(51)	—	—	—	51	—
At 31 December 2007 and at 1 January 2008		**25,364**	**41,562**	**5**	**24,415**	**—**	**—**	**(69,797)**	**21,549**
Loss for the year		**—**	**—**	**—**	**—**	**—**	**—**	**(365,862)**	**(365,862)**
Issue of shares by placement	27	**50,000**	**25,025**	**—**	**—**	**—**	**—**	**—**	**75,025**
Issue of shares by conversion of convertible loan notes	27	**66,000**	**66,000**	**—**	**—**	**—**	**—**	**—**	**132,000**
Share issue expenses		**—**	**(2,000)**	**—**	**—**	**—**	**—**	**—**	**(2,000)**
Issue of shares by exercise of share options	27	**18**	**18**	**(5)**	**—**	**—**	**—**	**—**	**31**
Employee share option benefits	35	**—**	**—**	**24,632**	**—**	**—**	**—**	**—**	**24,632**
Equity component of convertible loan notes	34	**—**	**—**	**—**	**—**	**—**	**285,987**	**—**	**285,987**
Cancellation of convertible loan notes, at fair value	34	**—**	**—**	**—**	**—**	**—**	**(59,580)**	**—**	**(59,580)**
Conversion of convertible loan notes	34	**—**	**—**	**—**	**—**	**—**	**(52,433)**	**—**	**(52,433)**
Exchange differences arising on translation of foreign operations		**—**	**—**	**—**	**—**	**3,454**	**—**	**—**	**3,454**
At 31 December 2008		**141,382**	**130,605**	**24,632**	**24,415**	**3,454**	**173,974**	**(435,659)**	**62,803**

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(364,403)**	(2,373)
Adjustments for:			
Depreciation of plant and equipment		**981**	20
Interest income		**(149)**	(173)
Amortisation of other intangible assets		**3,404**	—
Other receivables written off		**468**	—
Share-based payment expense		**24,632**	—
Fair value changes in financial derivative		**(19,097)**	—
Interest expenses on financial liabilities measured at amortised cost		**31,686**	—
Inventories written off		**9**	—
Goodwill impairment loss		**321,483**	—
Operating cash flows before movements in working capital		**(986)**	(2,526)
Increase in inventories		**(34)**	—
(Increase) decrease in trade and other receivables		**(4,880)**	656
Decrease in trade and other payables		**(839)**	(1,157)
Increase in amounts due to directors		**171**	—
CASH USED IN OPERATING ACTIVITIES		**(6,568)**	(3,027)
Income taxes paid		**(3,569)**	—
NET CASH USED IN OPERATING ACTIVITIES		**(10,137)**	(3,027)
INVESTING ACTIVITIES			
Purchase of plant and equipment		**(1,622)**	—
Interest received		**149**	173
Acquisition of subsidiaries	32	**(74,444)**	—
Deposit paid	37	**(5,650)**	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(81,567)**	173
FINANCING ACTIVITIES			
Proceeds from issue of placing shares		**75,025**	25,998
Placing shares issue expenses		**(2,000)**	(816)
Proceeds from exercise of share options		**31**	—
NET CASH FROM FINANCING ACTIVITIES		**73,056**	25,182
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(18,648)**	22,328
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**22,567**	239
Effect of foreign exchange rate changes		**(1,283)**	—
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by cash and bank balances		**2,636**	22,567

1. GENERAL

China E-Learning Group Limited (the "Company") is incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (Revised) of the Cayman Islands on 10 July 2001. The shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited.

The address of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" in the annual report.

The financial statements are presented in Hong Kong dollars ("HK$"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is Renminbi ("RMB"), the functional currency of the Company and its subsidiaries are HK$.

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 20 to the financial statements.

2. ADOPTION OF GOING CONCERN BASIS

The financial statements have been prepared on a going concern basis notwithstanding the loss from operations of the Group of approximately HK$351,814,000 as at 31 December 2008. In the opinion of the directors of the Company, the Group should be able to maintain itself as a going concern by taking into consideration the factors which include, but are not limited to, the following:

a. The maturity date of other loan of approximately HK$49,435,000 has been extended to 30 June 2011 as disclosed in note 30.

b. The convertible loan notes with principal face value of approximately HK$438,000,000 which was non-interest bearing and repayable on 26 February 2011 as disclosed in note 34.

   In the opinion of the directors of the Company, the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future and have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2008. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the financial statements for the year ended 31 December 2008 on a going concern basis. The financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORT STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the Group's results and financial position.

HKFRSs (Amendment)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement — Eligible Hedge Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — INT 13	Customer Loyalty Programmes[4]
HK(IFRIC) — INT 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — INT 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) — INT 17	Distributions of Non-cash Assets to Owners[3]

1 Effective for annual periods beginning on or after 1 January 2009, except the amendments to HKFRS 5 which are effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 January 2009.

3 Effective for annual periods beginning on or after 1 July 2009.

4 Effective for annual periods beginning on or after 1 July 2008.

5 Effective for annual periods beginning on or after 1 October 2008.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustment will be made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in subsidiaries

Subsidiaries are entities that are controlled by the Company, where the Company has the power to govern the financial and operating policies of such entities so as to obtain benefits from their activities.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivables.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. Impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses, if any.

Where an item of plant and equipment comprises major components having different useful lives, they are accounted for as separate items of plant and equipment.

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 an asset, the expenditure is capitalized as an additional cost of that asset.

Expenditure incurred to replace a component of an item of plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation is provided to write off the cost of the plant and equipment to their estimated residual value, if any, over their estimated useful lives from the date on which they become fully operational, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the terms of the relevant leases
Plant and equipment	20%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Plant and equipment *(Continued)*

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Construction in progress

Construction in progress represents properties under construction and is stated at cost less any recognised impairment losses. This includes cost of construction, plant and equipment and other direct costs. Upon completion of construction, the relevant costs are transferred to appropriate categories of plant and equipment when they are ready for their intended use. No depreciation is provided on construction in progress until the asset is completed and put into use upon which depreciation commence to be provided on the same basis as other plant and equipment items of the same category.

Intangible assets — research and development expenditure

Expenditure on research activities is recognized as expense in the year in which it is incurred.

Costs incurred on development activities, which involve the application of research findings to a plan or design for the production of new or substantially improved products and processes, are capitalized if the product or process is technically and commercially feasible and the Group has sufficient resources to complete the development. The expenditure capitalized includes the cost of materials, direct labour and appropriate proportion of overheads. Other development expenditure is recognized in the consolidated income statement as an expenses when it is incurred.

The development costs that have been capitalized are amortized from the commencement of the sale of products or provision of services on a straight-line method not more than three years or over the useful lives of such applications, whichever are shorter.

Inventories

Inventories are stated at lower of cost and net realisable value. Cost is calculated using first in first out method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. 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 though profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are loans and receivable. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted is set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. At each balance sheet subsequent to initial recognition, loans and receivables (including trade and other receivables, tax recoverable and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to directors and other loan are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group 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 profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial assets, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

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 and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible loan notes

Convertible loan notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the conversion option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the option remains unexercised at he expiry date, the balance stated in convertible loan notes equity reserve will be released to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible loan notes using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses (other than goodwill — see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

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 profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit 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 in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Revenue from online professional training and multimedia education is recognised when the relevant services are rendered.

System services and maintenance income is recognised when the relevant services are rendered.

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

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong Dollar) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the exchange reserve.

Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement Plans

The obligations for contributions to defined contribution retirement scheme are recognized as an expense in the consolidated income statement as incurred. The assets of the scheme are held separately from those of the Group in an independent administered fund.

Employee entitlements to annual leave and long service payments are recognized when they accrue to employees. A provision will be made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognized until the time of leave.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(ii) Share-based payments

The Group operates equity-settled share-based compensation scheme ("Scheme") to remunerate Is employees.

For share options granted under the Scheme, the fair value of the employee's services rendered in exchange for the grant of the options is recognized as an expense immediately and credited to the share-based payment reserve under equity. Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognizes the fair value of the options granted over the vesting periods. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of the original estimates, if any, in the consolidated income statement, and a corresponding adjustment to the share-based payment reserve.

Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price over the nominal value of the shares is recorded by the Company in the share premium account. The equity amount is recognized in the share-based payment reserve until the option is exercised when it is transferred to the share premium account if the options lapse unexercised, the related share-based payment reserve is transferred directly to retained profits.

Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly, through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis. Contingent rentals, if any, are charged to consolidated income statement in the accounting period in which they are incurred.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of plant and equipment

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Company assesses annually the residual value and the useful life of the plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will affect the depreciation charges in the year in which the estimates change.

Allowance for bad and doubtful debts

Management regularly reviews the recoverability and age of the trade and other receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowance for bad and doubtful debts *(Continued)*

In determining whether allowance for bad and doubtful debts is required, the Company takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Valuation of share options granted

The fair value of share options granted was calculated using the Black-Scholes valuation model which requires the management's estimates and assumptions on significant calculation inputs, including the estimated life of share options granted, the volatility of share price and expected dividend yield. Change in the subjective input assumptions could materially affect the fair value estimate.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value is use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was approximately HK$326,115,000 (2007: Nil) after an impairment loss of approximately HK$321,483,000 (2007: Nil) was recognised during 2008. Details of the impairment loss calculation are provided in note 17.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors of the Company consider the cost of capital and the associated risks and take appropriate actions to adjust the Company's capital structure. The overall strategy of the Company remained unchanged during the two years ended 31 December 2008 and 2007.

7. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables and other receivables, cash and bank balances, trade and other payables, amounts due to director, other loan and convertible loan notes. 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.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group manages its exposure to credit risk through continual monitoring of the credit quality of its customers, taking into account their financial position, collection history, past experience and other relevant factors. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

7. FINANCIAL INSTRUMENTS *(Continued)*

a. Financial risk management objectives and policies *(Continued)*

Currency risk

The Group has transactional currency exposures, primarily with respect to Renminbi for the year 2008 and United States dollar for the year 2007. Such exposures arise from provision of service income in currencies other than the Group's functional currency (i.e. Hong Kong Dollar). All of the Group's sales are denominated in Renminbi for the year 2008 and approximately 72% of the Group's sales are denominated in United States dollar for the year 2007.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the Group to which they relate.

	2008				2007			
	US$	**CAD**	**AUD**	**RMB**	US$	CAD	AUD	RMB
	'000	**'000**	**'000**	**'000**	'000	'000	'000	'000
Trade and other receivables	**7**	**—**	**—**	**5,320**	1	—	—	—
Cash and bank balances	**—**	**—**	**—**	**296**	1	1	—	—
Trade and other payables	**—**	**—**	**—**	**(2,340)**	(12)	—	(2)	—
Overall net exposure	**7**	**—**	**—**	**3,276**	(10)	1	(2)	—

The Group currently does not have a foreign currency hedging policy,. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The Group conducts its business transactions principally on RMB. The exchange rate risk of the Group is not significant.

7. FINANCIAL INSTRUMENTS *(Continued)*

a. Financial risk management objectives and policies *(Continued)*

Liquidity risk

For the management of the Group's liquidity risk, the Group monitors and maintains a sufficient level of cash and cash equivalents considered adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

The following table details the contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

	On demand or within one year HK$'000	More than two years but less than five years HK$'000	Total undiscounted cash flows HK$'000	Carrying Amount HK$'000
At 31 December 2008				
Financial liabilities				
Trade and other payables	**3,568**	**—**	**3,568**	**3,568**
Amounts due to directors	**251**	**—**	**251**	**251**
Other loan	**—**	**49,435**	**49,435**	**49,435**
Convertible loan notes	**—**	**341,070**	**341,070**	**341,070**
	3,819	**390,505**	**394,324**	**349,324**

	On demand or within one year HK$'000	Total undiscounted cash flows HK$'000	Carrying Amount HK$'000
At 31 December 2007			
Financial liabilities			
Trade and other payables	997	997	997
Amounts due to directors	80	80	80
	1,077	1,077	1,077

7. FINANCIAL INSTRUMENTS *(Continued)*

b. Fair value

The directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated balance sheet approximate to the corresponding carrying amounts due to their short term maturities.

c. Categories of financial instruments

	2008 **HK$'000**	2007 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)		
Trade and other receivables (excluding prepayments)	**11,184**	3
Tax recoverable	**2,110**	—
Cash and bank balances	**2,636**	22,567
	15,930	22,570
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables (excluding receipts in advance and accrued charges)	**1,429**	89
Amounts due to directors	**251**	80
Other loan	**49,435**	—
Convertible loan notes	**341,070**	—
	392,185	169

8. TURNOVER

An analysis of the Group's turnover for the year is as follows:

	2008 **HK$'000**	2007 HK$'000
Operational software application products	**77**	2,756
Online professional training and multimedia education	**26,615**	—
	26,692	2,756

8. TURNOVER *(Continued)*

Business segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from online professional training and multimedia education, no detailed analysis of the Group's business segments is disclosed.

Geographical segments

The Group's operations are situated in the People's Republic of China (the "PRC") in which its revenue was derived principally therefrom. Accordingly, no geographical segments are presented.

9. OTHER INCOME

	2008 **HK$'000**	2007 HK$'000
Exchange gain	**—**	1
Interest income	**149**	173
Sundry income	**12**	—
	161	174

10. OTHER OPERATING EXPENSE

	2008 **HK$'000**	2007 HK$'000
Other deposit forfeited	**—**	30

11. FINANCE COST, NET

	2008 **HK$'000**	2007 HK$'000
Interest expenses on financial liabilities measured at amortised cost (note 34)	**31,686**	—
Fair value changes on financial derivative (note 34)	**(19,097)**	—
Finance cost, net	**12,589**	—

12. LOSS BEFORE TAX

	2008 HK$'000	2007 HK$'000
Loss before tax has been arrived at after charging (crediting):		
Staff costs (including directors' emoluments (note 13)		
— basic salaries and allowances	**8,226**	1,296
— contributions to defined contribution plans	**27**	28
— share-based payment expense (note 35)	**24,632**	—
— miscellaneous	**100**	1
Total staff costs	**32,985**	1,325
Auditors' remuneration	**300**	260
Other receivables written off	**468**	—
Inventories written off	**9**	—
Depreciation of plant and equipment		
— included in cost of sales	**487**	—
— included in selling expenses	**3**	—
— included in administrative expenses	**491**	20
	981	20
Amortisation of other intangible assets	**3,404**	—
Goodwill impairment	**321,483**	—
Research and development costs	**18**	—
Operating leases charges		
— premises	**4,035**	45
— others	**69**	—
Other deposit forfeited	**—**	30
Exchange loss (gain)	**9**	(1)
Interest expenses on financial liabilities measured at amortised cost (note 34)	**31,686**	—
Fair value changes on financial derivative	**(19,097)**	—
Interest income	**(149)**	(173)

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

a. Directors' emoluments

Detailed of emoluments paid by the Group to the directors during the year as follows:

For the year ended 31 December 2008	**Fees** HK$'000	**Salaries, allowances and benefits in kind** HK$'000	**Retirement scheme contributions** HK$'000	**Total** HK$'000
Executive Directors				
Mr. Chen Hong (note i)	—	**750**	—	**750**
Ms. Liang Juan (note i)	—	**450**	—	**450**
Ms. Wang Hui (note ii)	—	**378**	—	**378**
Ms. Wei Jianya (note iii)	—	**83**	—	**83**
Mr. Li Xiangjun (note iii)	—	**83**	—	**83**
Ms. Tsang Wing Yee (note iv)	—	—	—	—
Ms. Chan Siu Mun (note iv)	—	—	—	—
Mr. Chan Chi Yuen (note v)	**44**	—	—	**44**
Independent Non-Executive Directors				
Ms. Chan Hoi Ling	**60**	—	—	**60**
Dr. Wong Yun Kuen	**60**	—	—	**60**
Dr. Huang Chung Hsing (note vi)	**23**	—	—	**23**
	187	**1,744**	—	**1,931**

For the year ended 31 December 2007	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive Directors				
Dr. Chan Lai Yin Simon (note vii)	—	1	1	2
Mr. Chan Yat Leong (note viii)	—	250	5	255
Mr. Law Tin Fan Arthur (note viii)	—	250	5	255
Mr. Yuen Sun Chak (note viii)	—	250	5	255
Ms. Tsang Wing Yee	—	320	5	325
Ms. Chan Siu Mun (note ix)	—	—	—	—
Mr. Chan Chi Yuen (note ix)	—	—	—	—
Independent Non-Executive Directors				
Ms. Chan Hoi Ling (note x)	25	—	—	25
Dr. Wong Yun Kuen (note x)	25	—	—	25
Mr. Ho Ho Yee Alexendra (note xi)	—	—	—	—
Mr. Lau Wing (note xi)	—	—	—	—
Prof. Lin Chinlon (note xii)	—	—	—	—
	50	1,071	21	1,142

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

a. Directors' emoluments *(Continued)*

Notes:

i) The directors were appointed on 1 April 2008.
ii) Ms. Wang Hui was appointed on 10 July 2008.
iii) The directors were appointed on 22 September 2008.
iv) The directors resigned on 1 April 2008.
v) Mr. Chan Chi Yuen resigned on 22 September 2008.
vi) Dr. Huang Chung Hsing was appointed on 14 August 2008.
vii) Dr. Chan Lai Yin Simon resigned on 15 February 2007.
viii) The directors resigned on 23 July 2007.
ix) The directors were appointed on 23 July 2007.
x) The directors were appointed on 1 August 2007.
xi) The directors resigned on 1 August 2007.
xii) Prof. Lin Chinlon resigned on 5 July 2007.

In 2008, the amounts of share-based payments were measured according to the Group's accounting policies for share-based payment transactions as set out in note 4 to the financial statements. Particulars of share options to the directors under the Company's share option scheme are set out in note 35 to the financial statements.

None of the directors of the Company waived or agreed to waive any emoluments paid by the Company and no incentive payment for joining the Company or compensation for loss of office was paid or payable to any director of the Company during the two years ended 31 December 2008 and 2007.

b. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three were directors (2007: one existing director and three former directors) of the Company, whose emoluments are included in the disclosures in note a above. The emoluments of the remaining two (2007: one) individual for the two years ended 31 December 2008 and 2007 were as follows:

	2008 HK$'000	2007 HK$'000
Salaries, allowances and benefits in kind	**613**	175
Retirement scheme contributions	**16**	7
	629	182

Their emoluments were all below HK$1,000,000.

14. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made in the financial statements as the Group's income neither arose in, nor was derived from Hong Kong for the year (2007: Nil).

Taxation arising in the PRC is calculated at the rates prevailing in the relevant jurisdiction.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No.63 issued by the Tenth National Peoples Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the Enterprise Income Tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008.

For the year ended 31 December 2008, the domestic income tax rate of 25% represents the PRC Foreign Enterprise Income Tax of which the Group's operations are substantially based.

The income tax expense for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

	2008 **HK$'000**	2007 HK$'000
Loss before tax	**(364,403)**	(2,373)
Tax at respective applicable tax rates	**(59,738)**	(415)
Tax effect of expenses not deductible for tax purposes	**60,974**	152
Tax effect of income not taxable for tax purposes	**(20)**	(30)
Tax effect of tax losses not recognised	**242**	327
Utilization of tax losses previously not recognised	**—**	(37)
Tax effect of unrecognized temporary differences	**—**	3
Tax effect of exemption granted to subsidiaries	**1**	—
Income tax expense for the year	**1,459**	—

15. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

16. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company of approximately HK$365,862,000 (2007: HK$2,373,000), and based on the weighted average number of shares in issue during the year of approximately 873,993,000 ordinary shares (2007: 196,312,000 ordinary shares), as adjusted to reflect the issue of new shares, exercise of share options and issue of shares by conversion of convertible loan notes during the year.

Weighted average number of ordinary shares for the purpose of basic loss per share

Number of shares	**2008 '000**	2007 '000
Issued ordinary shares at 1 January	**253,642**	146,770
Effect of issue of new shares (note 27)	**452,055**	46,626
Effect of exercise of share options (note 27)	**50**	2,916
Issue of shares by conversion of convertible loan notes (note 27)	**168,246**	—
Weighted average number of ordinary shares	**873,993**	196,312

No amounts are presented for the diluted loss per share because the Pre-IPO share options, share options and convertible loan notes outstanding during the year ended 31 December 2008 and 2007 had an anti-dilutive effect on the basic loss per share for the said year.

17. GOODWILL

	HK$'000
COST	
Arising on acquisition of subsidiaries during the year and at 31 December 2008	647,598
IMPAIRMENT	
Impairment loss recognised in the year and at 31 December 2008	(321,483)
CARRYING VALUE	
At 31 December 2008	326,115

Goodwill arose on acquisition of subsidiaries, New Beida Business StudyNet Group Limited and its subsidiaries.

17. GOODWILL *(Continued)*

Impairment testing of goodwill

During the year, the Group performed an impairment testing of goodwill with reference to a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, a qualified valuer not connected with the Group, for the purpose of assessing the recoverable amount. Such valuation has been carried out using cash flow projections based on financial budgets approved by management and applying the discounted cash flow technique. The directors of the Company are of the opinion, based on the business valuation, that goodwill associated with the education operations was impaired by HK$321,483,000 (2007: Nil).

18. OTHER INTANGIBLE ASSETS

	Software HK$'000
COST	
Acquired on acquisition of subsidiaries during the year	37,480
Exchange realignment	2,975
At 31 December 2008	**40,455**
AMORTISATION AND IMPAIRMENT	
Charge for the year	(3,404)
Exchange realignment	(144)
At 31 December 2008	**(3,548)**
CARRYING VALUE	
At 31 December 2008	36,907

The amortisation expense has been included in the cost of sales in the consolidated income statement.

The above intangible assets have definite useful lives. Such intangible assets are amortised on a straight-line basis over ten years.

19. PLANT AND EQUIPMENT

a. THE GROUP

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1 January 2007, 31 December 2007 and 1 January 2008	—	—	101	—	—	101
Additions	1,460	796	403	489	—	3,148
Acquired on acquisition of subsidiaries	—	1,867	583	—	1,757	4,207
Transfers	—	1,757	—	—	(1,757)	—
Exchange realignment	43	321	50	—	—	414
At 31 December 2008	1,503	4,741	1,137	489	—	7,870
DEPRECIATION AND IMPAIRMENT						
At 1 January 2007	—	—	35	—	—	35
Charge for the year	—	—	20	—	—	20
At 31 December 2007 and 1 January 2008	—	—	55	—	—	55
Charge for the year	286	478	143	74	—	981
Acquired on acquisition of subsidiaries	—	—	49	—	—	49
Exchange realignment	8	20	6	—	—	34
At 31 December 2008	294	498	253	74	—	1,119
CARRYING VALUES						
At 31 December 2008	1,209	4,243	884	415	—	6,751
At 31 December 2007	—	—	46	—	—	46

19. PLANT AND EQUIPMENT *(Continued)*

b. THE COMPANY

	Furniture, fixtures and office equipment HK$'000
COST	
Additions during the year and at 31 December 2008	8
DEPRECIATION AND IMPAIRMENT	
Charge for the year and at 31 December 2008	1
CARRYING VALUE	
At 31 December 2008	7

20. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2008 **HK$'000**	2007 HK$'000
Unlisted shares, at cost	**800,012**	12
Less: impairment loss on investment costs	**(473,885)**	—
	326,127	12
Amounts due from subsidiaries	**81,657**	8,705
Amounts due to subsidiaries	**80,098**	—

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

20. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Details of the subsidiaries held by the Company as at 31 December 2008 are as follows:

Name of company	Place of incorporation/ registration/ operations	Issue and fully paid up share capital/ registered capital	Proportion ownership interest held by the Company Directly	Indirectly	Principal activities
ProSticks (B.V.I) Limited	British Virgin Islands ("BVI")	Ordinary shares US$1,235,700	100%	—	Investment holding
iEngines Limited	Hong Kong	Ordinary shares HK$5,000,000	—	100%	Development and provision of operational software application products
HIS Photonic Systems Limited	Hong Kong	Ordinary shares HK$1	—	100%	Inactive
Up High Investments Limited	BVI	Ordinary shares US$1	—	100%	Inactive
Wise Gate Investments Limited	BVI	Ordinary shares US$1	—	100%	Investment holding
China E-Learning (Hong Kong) Limited	Hong Kong	Ordinary shares HK$1	100%	—	Investment holding
New Beida Business StudyNet Group Limited	BVI	Ordinary shares US$10,000	100%	—	Investment holding
Best Boom Enterprises Limited (note b)	BVI	Ordinary shares US$10	—	100%	Investment holding (note 37(a))
Beijing Hua Tuo Education Technology Company Limited (note a)	PRC	Registered capital HK$40,000,000	—	100%	Provision of occupational education, industry certification course, skills training and education consultation
Beijing Ke Xiong Education Company Limited (note a)	PRC	Registered capital RMB5,000,000	—	100%	Provision of occupational education, industry certification course, skills training and education consultation
Beijing Yi You Xing Service and Technology Development Company Limited (note a)	PRC	Registered capital RMB2,000,000	—	100%	Provision of occupational education, industry certification course, skills training and education consultation

Notes:

a. These are wholly-foreign owned enterprises established in the PRC.

b. These subsidiaries are established by the Group in 2008.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

21. INVENTORIES

	2008 HK$'000	2007 HK$'000
Finished goods	**25**	—

22. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Trade receivables	**585**	—	**—**	—
Deposits and other receivables	**11,067**	—	**—**	—
Less: Other receivables written off	**(468)**	3	**—**	—
Prepayments	**1,294**	10	**931**	—
	12,478	13	**931**	—

An ageing analysis of trade receivables as at the balance sheet date is as follows:

	THE GROUP		THE COMPANY	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Within 30 days	**6**	—	**—**	—
31 to 60 days	**—**	—	**—**	—
61 to 90 days	**14**	—	**—**	—
Over 90 days	**565**	—	**—**	—
	585	—	**—**	—

General credit terms that the Group offers to customers are 30 days from billing.

At each of the balance sheet dates, the Group's trade and other receivables were individually determined to be impaired. The individually impaired receivables are recognized based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. The Group does not hold any collateral over the balances.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
United States Dollar (US$'000)	**7**	1	**—**	—
Renminbi (RMB'000)	**5,320**	—	**—**	—

23. CASH AND BANK BALANCES

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances	**2,587**	15,286	**—**	13,663
Cash balances at licensed corporation	**—**	145	**—**	—
Cash balances	**49**	12	**18**	—
	2,636	15,443	**18**	13,663
Non-pledged time deposits at licensed corporation	**—**	7,124	**—**	—
Cash and cash equivalents in the consolidated cash flow statement	**2,636**	22,567	**18**	13,663

Included in the cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
United States Dollar (US$'000)	**—**	1	**—**	—
Canadian Dollar (CAD'000)	**—**	1	**—**	—
Renminbi (RMB'000)	**296**	—	**—**	—

Cash at banks and licensed corporation earn interest at floating rates based on daily bank/licensed corporation deposits rates. Short term time deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates ranging from 2% to 5% per annum for the year ended 31 December 2007.

24. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**1,109**	89	**—**	—
Other payables	**320**	—	**—**	—
Receipts in advance				
— system services and maintenance income	**—**	26	**—**	—
— trade deposit received	**933**	47	**—**	—
Accrued charges	**1,206**	835	**776**	825
	3,568	997	**776**	825

An ageing analysis of the trade payables as at the balance sheet date is as follows:

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**447**	62	**—**	—
31 to 60 days	**488**	27	**—**	—
61 to 90 days	**152**	—	**—**	—
Over 90 days	**22**	—	**—**	—
	1,109	89	**—**	—

Included in the trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
United States Dollar (US$'000)	**—**	12	**—**	8
Australian Dollar (AUD'000)	**—**	2	**—**	2
Renminbi (RMB'000)	**2,340**	—	**—**	—

25. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the fair value of the amounts due to directors approximates to their corresponding carrying amounts.

26. DEFERRED TAXATION

a. The Group

The components of deferred tax (assets) liabilities recognized in the consolidated balance sheet and the movements during the years are as follows:

Deferred tax arising from:	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2007	12	(12)	—
(Credited)/charged to consolidated income statement	(4)	4	—
At 31 December 2007, 1 January 2008 and 31 December 2008	8	(8)	—

At the balance sheet date, the Group had estimated the unused tax losses of approximately HK$18,510,000 (2007: HK$18,203,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$46,000 of such losses for the year 2007. No deferred tax assets have been recognised for the year 2008 and in respect of the remaining of approximately HK$18,157,000 for the year 2007 due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

b. The Company

As at the balance sheet date, the Company had unused tax losses of approximately HK$15,837,000 (2007: HK$15,837,000) available for offset against future profits. No deferred tax assets have been recognized in respect of such losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

27. SHARE CAPITAL

	Notes	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each			
Authorized:			
At 1 January 2007, 31 December 2007 and 1 January 2008		800,000,000	80,000
Increase on 14 February 2008	i	9,200,000,000	920,000
At 31 December 2008		10,000,000,000	1,000,000
Issued and fully paid:			
At 1 January 2007		146,770,000	14,677
Issue of shares by placement	ii	29,584,000	2,958
Issue of shares by open offer	iii	72,367,600	7,237
Issue of shares by exercise of share options	iv	4,920,250	492
At 31 December 2007 and 1 January 2008		253,641,850	25,364
Issue of shares by placement	v	500,000,000	50,000
Issue of shares by exercise of share options	vi	177,625	18
Issue of shares by conversion of convertible loan notes	vii	660,000,000	66,000
At 31 December 2008		1,413,819,475	141,382

Notes:

i. Pursuant to the extraordinary general meeting held on 14 February 2008, the authorized share capital of the Company was increased from HK$80,000,000 divided into 800,000,000 shares to HK$1,000,000,000 divided into 10,000,000,000 shares by the creation of additional 9,200,000,000 shares.

ii. Pursuant to a subscription agreement entered into by the Company with Magic Key International Holdings Limited, the controlling shareholder of the Company dated 4 June 2007, 29,584,000 ordinary shares of HK$0.10 each at the subscription price of HK$0.355 per share was issued on 14 June 2007. The net proceeds from the subscription of shares, after deducting all related expenses, were approximately HK$10,201,000. The Company has utilised the net proceeds for general working capital of the Company. The shares rank pari passu with the existing shares in all respects.

27. SHARE CAPITAL *(Continued)*

Notes: *(Continued)*

iii. On 1 August 2007, the Company issued 72,367,600 ordinary shares of HK$0.10 each at a price of HK$0.20 per share pursuant to the open offer on the basis of two offer shares for every five existing shares held on 29 June 2007. The net proceeds from the open offer, after deducting all related expenses, were approximately HK$13,958,000. The shares rank pari passu with the existing shares in all respects.

iv. During the year ended 31 December 2007, share options were exercised to subscribe for 4,920,250 ordinary shares of the Company at a total consideration of approximately HK$1,023,000 of which approximately HK$492,000 were credited to share capital and the balance of approximately HK$531,000 were credited to the share premium account. Details of the share options exercised are as follows:

	Number of shares issued
Date of issue	
17 April 2007	1,160,000
7 May 2007	1,005,000
6 June 2007	2,400,000
31 October 2007	355,250
	4,920,250

v. On 5 February 2008, the placing of new shares was completed and 500,000,000 new shares were issued and allotted at placing price of HK$0.15 per share. The gross proceeds from placing of new shares before issue expenses amounted to approximately HK$75,025,000. Details of the placing are set out in the Company's announcement and circular dated 24 October 2007 and 1 November 2007 respectively.

vi. On 22 September 2008, share options were exercised to subscribe for 177,625 ordinary shares of the Company at a total consideration of approximately HK$31,000 of which approximately HK$18,000 were credited to share capital, approximately HK$5,000 were debited to share-based payment reserve and the balance of approximately HK$18,000 were credited to the share premium account.

vii. During the year ended 31 December 2008, convertible loan notes holders exercised their rights to subscribe for 660,000,000 shares at a consideration of HK$132,000,000.

28. RESERVES

a. The Group

The capital reserve of the Group represents the excess of the nominal value of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganization over the nominal value of the share capital of the Company issued in exchange therefor.

The amounts of the Group's reserves and movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28 of the annual report.

b. The Company

	Notes	Share premium HK$'000	Share-based payment reserve HK$'000	Conversion note equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007		26,831	292	—	(42,841)	(15,718)
Loss for the year		—	—	—	(2,666)	(2,666)
Issue of shares by placement	27	7,543	—	—	—	7,543
Issue of shares by open offer	27	7,237	—	—	—	7,237
Share issue expenses		(816)	—	—	—	(816)
Issue of shares by exercise of share options	27	767	(236)	—	—	531
Forfeited share options expensed off to accumulated losses		—	(51)	—	51	—
At 31 December 2007 and at 1 January 2008		**41,562**	**5**	**—**	**(45,456)**	**(3,889)**
Loss for the year		**—**	**—**	**—**	**(368,486)**	**(368,486)**
Issue of shares by placement	**27**	**25,025**	**—**	**—**	**—**	**25,025**
Issue of shares by conversion of convertible loan notes	**27**	**66,000**	**—**	**—**	**—**	**66,000**
Share issue expenses		**(2,000)**	**—**	**—**	**—**	**(2,000)**
Issued of shares by exercise of share options	**27**	**18**	**(5)**	**—**	**—**	**13**
Employee share option benefits	**35**	**—**	**24,632**	**—**	**—**	**24,632**
Equity component of convertible loan notes	**34**	**—**	**—**	**285,987**	**—**	**285,987**
Cancellation of convertible loan notes, at fair value	**34**	**—**	**—**	**(59,580)**	**—**	**(59,580)**
Conversion of convertible loan notes	**34**	**—**	**—**	**(52,433)**	**—**	**(52,433)**
At 31 December 2008		**130,605**	**24,632**	**173,974**	**(413,942)**	**(84,731)**

28. RESERVES *(Continued)*

b. The Company *(Continued)*

Pursuant to the Companies Law of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business. At 31 December 2008, in the opinion of the directors of the Company, the Company did not have any reserve available for distribution to shareholders (2007: Nil).

The share-based payment reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 35 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

29. OPERATING LEASE COMMITMENTS

	2008 **HK$'000**	2007 HK$'000
Minimum lease payments under operating lease during the year		
— premises	**4,035**	45
— others	**69**	—
	4,104	45

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and other asset, which fall due as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**5,071**	—
In the second to fifth years inclusive	**12,080**	—
Over five years	**1,000**	—
	18,151	—

Leases are negotiated and rentals are fixed for terms of 3 to 12 years (2007: Nil)

30. OTHER LOAN

The amount represents an amount due to former shareholder of New Beida Business StudyNet Group Limited which is unsecured, interest-free and is repayable on 30 June 2011. In the opinion of the directors of the Company, the fair value of other loan approximates to their corresponding carrying amount.

31. OTHER COMMITMENT

	2008 **HK$'000**	2007 HK$'000
Expenditure contracted for but not provide in the consolidated financial statements in respect of:		
— Consultancy services	**210**	—

32. ACQUISITION OF MAJOR SUBSIDIARIES

Acquired 100% equity interests in New Beida Business StudyNet Group Limited

On 16 October 2007, the Group entered into acquisition agreement that acquired 100% equity interests in New Beida Business StudyNet Group Limited, a company incorporated in the British Virgin Islands with limited liability, at a consideration of HK$800,000,000. According to the acquisition agreement, the vendor undertakes to the Company that the aggregate profits after tax shown in the audited consolidated accounts of New Beida Business StudyNet Group Limited prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the financial year ended 31 December 2008 shall not be less than HK$150 million and will compensate the Group for any shortfall between the guaranteed profits and the actual aggregate profits after tax shown in the audited consolidated accounts of New Beida Business StudyNet Group Limited prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the financial year ended 31 December 2008.

Based on the audited financial results of New Beida Business StudyNet Group Limited, the profit guarantee requirement is not fulfilled and the Group is entitled to set off the amount of the short fall as calculated in accordance with the acquisition agreement dated 16 October 2007 against the principal amount of the Restricted Convertible Notes of HK$150 million, with the remaining balance of approximately HK$565,000 against the other loan. As a result, the adjusted consideration is approximately HK$649,435,000.

This acquisition has been accounted for by the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was approximately HK$647,598,000.

32. ACQUISITION OF MAJOR SUBSIDIARIES *(Continued)*

Acquired 100% equity interests in New Beida Business StudyNet Group Limited *(Continued)*

Details of the net assets acquired in respect of the acquisition of New Beida Business StudyNet Group Limited during the year ended 31 December 2008 are summarised below:

	Fair value of assets and liabilities acquired HK$'000
NET ASSETS ACQUIRED	
Other intangible assets	37,481
Plant and equipment	4,158
Trade and other receivables	8,053
Bank balances and cash	5,556
Trade and other payables	(294)
Deposit in advance	(3,117)
Other loan	(50,000)
Net assets acquired	1,837
Goodwill	647,598
Adjusted consideration	649,435
Total consideration satisfied by:	
— Cash	80,000
— Convertible loan notes	570,000
— Other receivables	(565)
	649,435
Net cash outflow arising on acquisition:	
Cash paid	(80,000)
Bank balances and cash acquired	5,556
	(74,444)

The goodwill arising on the acquisition of New Beida Business StudyNet Group Limited during the year ended 31 December 2008 was attributable to the anticipated future operating synergies from the combination of the existing distribution networks of the Group.

32. ACQUISITION OF MAJOR SUBSIDIARIES *(Continued)*

Acquired 100% equity interests in New Beida Business StudyNet Group Limited *(Continued)*

The subsidiary acquired during the year ended 31 December 2008 contributed approximately HK$26,615,000 to the Group's revenue and profit of approximately HK$1,777,000 to the Group's results.

If the acquisition had been completed on 1 January 2008, total contribution to the Group's revenue for the year ended 31 December 2008 would have been approximately HK$26,718,000, and loss for the year ended 31 December 2008 would have been HK$565,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group for the year ended 31 December 2008 that actually would have been achieved had the acquisition been completed on 1 January 2008, nor is it intended to be a projection of future results.

33. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

All key management personnel of the Group in 2008 and 2007 were directors and details of their emoluments are disclosed in note 13 to the financial statements.

	2008 **HK$'000**	2007 HK$'000
Directors' fees, salaries and other short-term employee benefits	**1,931**	1,121
Post-employment benefits	**—**	21
Share-based payments	**7,998**	—
Others	**330**	—
	10,259	1,142

Note: The above transactions are recurring in nature and fall under the definition of "continuing connected transaction" in Chapter 20 of the GEM Listing Rules. However, these transactions were exempt from all the reporting, announcement and independent shareholders' approval requirements pursuant to the GEM Listing Rules.

33. RELATED PARTY TRANSACTIONS *(Continued)*

Balances with related parties

	2008 HK$'000	2007 HK$'000
Non-trade balances due to directors		
Mr. Chen Hong	**38**	—
Ms. Wang Hui	**30**	—
Ms. Liang Juan	**100**	—
Ms. Wei Jianya	**83**	—
Ms. Chan Hoi Ling	**—**	25
Dr. Wong Yun Kuen	**—**	25
Ms. Tsang Wing Yee (resigned on 1 April 2008)	**—**	30
	251	80

34. CONVERTIBLE LOAN NOTES

On 27 February 2008, pursuant to the acquisition of 100% interest in New Beida Business StudyNet Group Limited from Sino Tactic Group Limited ("Vendor"), the Company issued zero coupon convertible loan notes (the "Convertible Loan Notes") as partial settlement of the acquisition consideration.

The principal terms of the Convertible Loan Notes are as follows:

Date of issue	27 February 2008
Aggregate principal amount	HK$720,000,000
Denomination in multiple of	HK$20,000,000
Interest rate	Nil
Conversion price	HK$0.2
Maturity date	36 months from the date of issue

(a) Conversion period

Apart from the portion of Restricted Convertible Notes (as described below), the holders of the Convertible Loan Notes shall have the rights at any time and from time to time, following the date of issue of the Convertible Loan Notes, to convert the whole or any part of the outstanding principal amount into new ordinary shares in the Company. The shares to be issued and allotted upon conversion shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue.

34. CONVERTIBLE LOAN NOTES *(Continued)*

(b) Restricted convertible loan notes

Part of the Convertible Loan Notes in principal amount of HK$150 million (the "Restricted Convertible Notes") was under security to the Company for the purpose of ensuring that the Profit Guarantee (as described below) is fulfilled.

(c) Issuer early redemption option

The Company shall have the right to redeem any portion of the Convertible Loan Notes outstanding at an amount equals to the principal amount of the Convertible Loan Notes in its sole and absolute discretion at any time prior to the maturity date.

The Convertible Loan Notes contain liability component, equity component and early redemption option derivatives. The issuer early redemption option derivative is not closely related to the host contract as the early redemption amount is not close to the amortised cost of the liability on the redemption date. Issuer early redemption option derivative are measured at fair value with change in fair value recognised in profit or loss.

(d) Profit Guarantee

The Vendor undertakes to the Company that the aggregate profits after tax shown in the audited consolidated accounts of New Beida Business StudyNet Group Limited prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the financial year ended 31 December 2008 shall not be less than HK$150 million and will compensate the Company for any shortfall between the guaranteed profits and the actual aggregate profits after tax shown in the audited consolidated accounts of New Beida Business StudyNet Group Limited prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the financial year ended 31 December 2008. The Restricted Convertible Notes will be stake held by the Company for the purpose of ensuring the Profit Guarantee requirement is fulfilled according to the acquisition agreement entered into by the Company and the Vendor on 16 October 2007 while the Vendor undertakes not to exercise the conversion rights attaching on the Restricted Convertible Notes during the Profit Guarantee period and up to 31 March 2009. In the event that the Restricted Convertible Notes under security to the Company is not sufficient to cover the compensation amount due to the shortfall from the Profit Guarantee, the Vendor will be liable to pay the Company in cash for any outstanding compensation amount on a dollar for dollar basis after off-setting the amount represented by the Restricted Convertible Notes.

34. CONVERTIBLE LOAN NOTES *(Continued)*

(d) Profit Guarantee *(Continued)*

Based on the audited financial results of New Beida Business StudyNet Group Limited, the profit guarantee requirement is not fulfilled and the Group is entitled to set off the amount of the shortfall as calculated in accordance with the acquisition agreement dated 16 October 2007 against the principal amount of the Restricted Convertible Notes, with the remaining balance of approximately HK$565,000 against the other loan.

The directors of the Company have assessed the fair value of the Convertible Loan Notes with embedded derivative. At 31 December 2008, the liability component of the Convertible Loan Notes is approximately HK$341,070,000 which is stated at amortised cost using the effective interest method and the fair value of the derivative component of the Convertible Loan Notes is approximately HK$64,455,000. The effective interest expense of Convertible Loan Notes and change in fair value of the embedded derivatives amounting to approximately HK$31,686,000 and HK$19,097,000, respectively, have been recognised in the consolidated income statement for the year ended 31 December 2008.

The methods and assumptions applied for the valuation of the Convertible Loan Notes are as follows:

Valuation of liability component

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the initial recognition contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component is 12.29%.

34. CONVERTIBLE LOAN NOTES *(Continued)*

(d) Profit Guarantee *(Continued)*

Valuation of issuer early redemption option derivative

Bionomial model is used for valuation of issuer early redemption option derivative. The inputs into the model were as follows:

	27 February 2008	**31 December 2008**
Stock price	HK$0.93	HK$0.50
Exercise price	HK$0.20	HK$0.20
Volatility	57.77%	67.15%
Option life	36 months	26 months
Risk free rate	2.009%	0.567%

The movement of the Convertible Loan Notes for the year is set out below:

	Liability component HK$'000	**Equity component** HK$'000	**Derivative component** HK$'000	**Total** HK$'000
Carrying amount at 27 February 2008	508,575	285,987	(74,562)	720,000
Cancellation of convertible loan notes, at fair value	(105,954)	(59,580)	15,534	(150,000)
Conversion of convertible loan notes	(93,237)	(52,433)	13,670	(132,000)
Change in fair value	—	—	(19,097)	(19,097)
Effective interest expense	31,686	—	—	31,686
Carrying amount at 31 December 2008	341,070	173,974	(64,455)	450,589

The carrying amount of derivative component of approximately HK$64,455,000 represents the fair value of the issuer early redemption option as at 31 December 2008.

35. SHARE-BASED EMPLOYEE COMPENSATION

Pre-IPO Share Option Scheme

The Company adopted a Pre-IPO Share Option Scheme on 24 November 2001, pursuant to which, the Board might during the period commencing on the adoption date of the Pre-IPO Share Option Scheme and ending on the day immediately prior to the day when bulk printing of the prospectus for listing of shares of the Company took place grant options to any employee of the Group or any other persons who, in the sole discretion of he Board, have contributed or would contributed to the Group to subscribe for shares of the Company at HK$0.12 per share, representing a discount of approximately 64% of the placing price when the shares of the Company were first listed on GEM of the Stock Exchange on 5 December 2001. The exercise price was subsequently adjusted to HK$0.9796 per share after adjustment for the open offer of the Company effected during the year and the share consolidation effected in the year 2006.

On 27 November 2001, options to subscribe for a total of 44,000,000 shares of the Company were granted to a director and an employee at a total consideration of HK$2. The options granted may be exercised at any time during the period from 5 December 2001 to 4 December 2011. No options were granted under the Pre-IPO Share Option Scheme after the listing of the shares of the Company. The option for subscribing 40,000,000 shares of the Company was lapsed and an option to subscribe for 490,000 shares (after adjustment for the open offer of the Company effected during the year and the share consolidation effected in the year 2007) was outstanding as at 31 December 2008. No options granted under Pre-IPO Share Option Scheme were exercised, cancelled or lapsed during the year.

Share Option Scheme

The Company adopted a Share Option Scheme on 24 November 2001 for the purpose of providing incentives or rewards to selected persons for their contribution to the Group. The Share Option Scheme shall be valid and effective for 10 years with expiry date of 5 December 2011. Pursuant to the Share Option Scheme, the Board may grant options to any employee of the Group or any other persons who, in the sole discretion of the Board, have contributed or will contribute to the Group to subscribe for shares of the Company at a price determined by the Board and shall be no less than the highest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer of the option which must be a business day, (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of the options; and (iii) the nominal value of a share on the date of offer of the options.

The total number of securities which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 97,360,000 shares. The maximum entitlement of each participant under the Share Option Scheme in any 12-month period is 1 per cent of the shares in issue.

35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Share Option Scheme *(Continued)*

The grantees may accept the offer of options by paying HK$1 as the consideration of the grant to the Company within 28 days from the date of offer. Any offer which is not accepted within such period will be deemed to have been irrevocably declined. The options may be exercised at any time during a period of 10 years from the date of grant of the options and there is no lock-up period for exercise of the options.

The movements in the share options of the Company during the year are shown in the following table:

Name of Participants	Date of Grant	Exercise period and vesting period	Exercise price per share (HK$)	At 1 January 2008	Granted for the year	Exercised during the year	Lapsed during the year	At 31 December 2008
Directors:								
Tsang Wing Yee								
(resigned on 1 April 2008)	10/11/2006	10/11/2006-09/11/2016	0.1729	177,625	—	177,625	—	—
Chen Hong	28/08/2008	28/08/2008-27/08/2018	0.43	—	9,500,000	—	—	9,500,000
Liang Juan	28/08/2008	28/08/2008-27/08/2018	0.43	—	2,000,000	—	—	2,000,000
Wang Hui	28/08/2008	28/08/2008-27/08/2018	0.43	—	9,000,000	—	—	9,000,000
Wei Jianya	28/08/2008	28/08/2008-27/08/2018	0.43	—	4,000,000	—	—	4,000,000
Li Xiangjun	28/08/2008	28/08/2008-27/08/2018	0.43	—	7,000,000	—	—	7,000,000
Subtotal				177,625	31,500,000	177,625	—	31,500,000
Others:								
In aggregate	28/08/2008	28/08/2008-27/08/2018	0.43	—	65,500,000	—	—	65,500,000
Subtotal				177,625	97,000,000	177,625	—	97,000,000

(a) 97,000,000 new share options were granted during the year. The fair value of options granted under the Share Option Scheme during the year 2008, measured at their respective date of grant, amounted to approximately HK$24,632,000 of HK$0.2539 each. The fair values of the outstanding options were derived from Black-Scholes option pricing model by applying the following bases and assumptions:

Date of grant (dd-mm-yy)	Expected volatility	Expected life (in years)	Risk-free Interest rate	Expected dividend yield
28/08/08	79.6%	10	2.76%	Nil

35. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Share Option Scheme *(Continued)*

(a) *(Continued)*

The Group recognised the total expenses of approximately HK$24,632,000 in relation to share options granted by the Company.

(i) the expected volatilities were generated from Bloomberg based on the Company's 999 day historical share prices before the 28 August 2008;

(ii) the applicable risk-free rates were the yields of five years Hong Kong Monetary Authority exchange fund notes, matching the assumed life of the options, quoted at 28 August 2008; and

(iii) the expected dividend yields were estimated based on the historical dividend, which was zero.

(b) The values of the options are subject to the limitations of the Black-Scholes option pricing model and a number of assumptions which are subjective and difficult to ascertain. Changes in the subjective input assumptions could materially affect the fair value estimate.

(c) The share price of the Company's shares immediately before the date on which the options were exercised and at the date of exercise of the share options are HK$0.37 and HK$0.37 respectively.

(d) The outstanding share options as at 31 December 2008 had a remaining contractual life of 9.65 years.

(e) If options are forfeited before expiration or lapsed, the related share-based payment reserve will be transferred directly to accumulated losses.

36. RETIREMENT SCHEME

In compliance with the Mandatory Provident Fund (the "MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, the Group is participating in a defined contribution MPF scheme operated by an approved trustee in Hong Kong and is making contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages of the employees (monthly mandatory contribution is limited to 5% of HK$20,000 for each eligible employee as stipulated by the MPF legislation). Any contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions may be used by the Group to reduce the existing level of contributions. No such amounts were utilized by the Group during the year. The total pension cost charged to the consolidated income statement amounted to approximately HK$27,000 (2007: HK$28,000).

37. POST BALANCE SHEET EVENTS

Acquisition of IIN Group

On 12 June 2008, Best Boom Enterprises Limited entered into an agreement to acquire the entire interest of IIN Medical (BVI) Group Limited ("IIN Medical (BVI)") at a consideration of approximately RMB40,000,000 (or its equivalent, HK$45,200,000). The consideration consists of: a) cash of approximately HK$5,650,000 which has been paid during the year and recorded as deposit in balance sheets as at 31 December 2008 and b) approximately HK$39,550,000 by issue of convertible notes. IIN Medical (BVI), together with its subsidiaries ("IIN Group"), is principally engaged in healthy program.

An ordinary resolution for the acquisition was passed on 27 February 2009. The acquisition was not completed as of the date of approval of these financial statements.