



3rd Quarterly Report



中国网络教育集团有限公司

CHINA E-LEARNING GROUP LTD.

(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.

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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.

RESULTS

The board (the “Board”) of Directors of China E-Learning Group Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the nine months and three months ended 30 September 2009, together with the comparative unaudited figures of the corresponding period in 2008, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		2009 HK\$'000	2008 HK\$'000	2009 HK\$'000	2008 HK\$'000
Turnover	2	3,298	28,734	2,029	1,074
Cost of sales		(12,919)	(7,469)	(7,417)	(2,764)
Gross (loss)/profit		(9,621)	21,265	(5,388)	(1,690)
Other income	2	633	148	623	12
Administrative expenses		(34,112)	(46,132)	(25,166)	(37,872)
Impairment losses	3	(360,295)	—	(360,295)	—
Loss from operations		(403,395)	(24,719)	(390,226)	(39,550)
Finance costs	4	(27,567)	—	(6,803)	—
Loss before taxation		(430,962)	(24,719)	(397,029)	(39,550)
Taxation	5	—	(3,729)	—	105
Loss for the period		(430,962)	(28,448)	(397,029)	(39,445)
Dividend	6	—	—	—	—
Basic loss per share	7	(25.57) cents	(3.53) cents	(18.59) cents	(4.05) cents
Diluted loss per share	7	N/A	N/A	N/A	N/A

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which include all applicable Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), the accounting principles generally accepted in Hong Kong and the disclosure requirements of the Rules Governing the Listing of Securities on GEM.

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial statements for the three months and nine months ended 30 September 2009 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2008 except for the following amendments and interpretations (“New HKFRSs”) issued by the HKICPA, which are or have become effective.

HKFRSs (Amendments)	Improvements to HKFRSs
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellation
HKFRS 7	Financial Instruments: Disclosures — Improving Disclosure about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) — 9	Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments Recognition and Measurement
HK(IFRIC) — 13	Customer Loyalty Programmes
HK(IFRIC) — 15	Agreements for the Construction of Real Estate
HK(IFRIC) — 16	Hedges of a Net Investment in a Foreign Operations

The adoption of the above New HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s unaudited consolidated financial statements.

The unaudited condensed consolidated financial statements for the three months and nine months ended 30 September 2009 have not been audited by the Company’s auditors, but have been reviewed by the audit committee of the Company.

2. TURNOVER AND OTHER INCOME

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

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
System services and maintenance income	—	77	—	—
Online professional training and multi-media education products income	3,298	28,657	2,029	1,074
	3,298	28,734	2,029	1,074
Other income				
Interest income	26	148	16	12
Rental income	607	—	607	—
	633	148	623	12

3. IMPAIRMENT LOSSES

In view of the poor performance of New Beida Business StudyNet Group Limited, a wholly-owned subsidiary of the Company, and its subsidiaries (collectively referred to as “New Beida Group”), the Group performed impairment testings of goodwill and other assets of New Beida Group for the purpose of assessing their recoverable amounts during the period under review. The directors of the Company are of the opinion that the goodwill associated with the acquisition of New Beida Group and New Beida Group’s intangible assets were impaired by approximately HK\$326,115,000 (2008: Nil) and HK\$34,180,000 (2008: Nil) respectively.

4. FINANCE COSTS

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest expenses on convertible notes measured at amortized cost	27,384	—	6,803	—
Fair value changes on financial derivative	183	—	—	—
	27,567	—	6,803	—

5. TAXATION

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

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

The amount of taxation charged to the unaudited condensed consolidated income statement represents:

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PRC enterprise income tax	—	3,729	—	(105)

6. DIVIDEND

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2009. (2008: nil).

7. LOSS PER SHARE

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

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unaudited loss for the period for the purpose of basic and diluted loss per share	430,962	28,448	397,029	39,445
	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
Number of shares	2009	2008	2009	2008
Weighted average number of ordinary shares for the purpose of basic loss per share	1,685,116,178	807,031,279	2,136,167,301	973,736,455
Weighted average number of ordinary shares for the purpose of diluted loss per share	N/A	N/A	N/A	N/A

Diluted loss per share for the nine months and three months ended 30 September 2009 are not presented because the Company's share outstanding options and convertible notes had an anti-dilutive impact.

8. MOVEMENT OF RESERVES (UNAUDITED)

	Share premium HK\$'000	Share- Based payment reserve HK'000	Capital reserve HK\$'000	Convertible note equity reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As of 1 January 2008	41,562	5	24,415	—	—	(69,797)	(3,815)
Loss for the period	—	—	—	—	—	(28,448)	(28,448)
Issue of new shares by exercise of share option	13	—	—	—	—	—	13
Issue of placing shares	25,000	—	—	—	—	—	25,000
Share issue expenses	(1,975)	—	—	—	—	—	(1,975)
Conversion of convertible notes	22,000	—	—	—	—	—	22,000
Grant of share options	—	24,632	—	—	—	—	24,632
Exchange differences on translation of the financial statements of PRC subsidiaries	—	—	—	—	312	—	312
As of 30 September 2008	86,600	24,637	24,415	—	312	(98,245)	37,719
As of 1 January 2009	130,605	24,632	24,415	173,974	3,454	(435,659)	(78,579)
Total comprehensive income/(loss) for the period	—	—	—	—	585	(430,962)	(430,377)
Issue of new shares	22,400	—	—	—	—	—	22,400
Share issue expenses	(1,181)	—	—	—	—	—	(1,181)
Conversion of convertible notes	74,387	—	—	(47,744)	—	—	26,643
Issue of convertible notes	—	—	—	24,522	—	—	24,522
Grant of share options	—	18,851	—	—	—	—	18,851
As of 30 September 2009	226,211	43,483	24,415	150,752	4,039	(866,621)	(417,721)

9. SHARE OPTIONS

On 9 July 2009, the Company granted 140,000,000 share options to the executive directors of the Company, employees of the Group and persons who have contributed or will contribute to the Group at an exercise price of HK\$0.219 per share under the Company's share option scheme adopted on 24 November 2001. The share options shall entitle the grantees to subscribe for a total of 140,000,000 new shares of HK\$0.1 each of the Company.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The online education business of the Company mainly derived from industry certification courses and management training courses organized by Distance Education College of Beijing University of Chinese Medicine ("Distance Education College"), a 60%-owned subsidiary of the Company. Distance Education College admitted 3,343 students and generated a tuition fee income of approximately HK\$2,313,000 during the nine months ended 30 September 2009.

OUTLOOK

In addition to the existing business operated by Distance Education College, the Group is currently developing continued education training courses for medical practitioners, which are expected to be the key profit driver in the near future.

On the other hand, whilst the Group will continue to explore opportunities for our existing business, we are reorganizing our business by discontinuing certain loss-making and risky projects, such as those organized by New Beida Group, in order to minimize the Group's exposure to financial as well as business risks.

FINANCIAL REVIEW

During the nine months ended 30 September 2009, the Group recorded turnover of approximately HK\$3,298,000, representing a decrease of 89% compared with approximately HK\$28,734,000 in the corresponding period of 2008.

The Group's net loss attributable to equity holders of the Company was approximately HK\$430,962,000 in contrast to net loss of approximately HK\$24,719,000 in the corresponding period of 2008. The increase in net loss reflects the poor performance of New Beida Group, which has led to the impairment losses on goodwill and intangible assets, and the interest expense incurred on the convertible notes.

Share capital

As at 1 July 2009, the authorized share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each and the issued share capital of the Company was approximately HK\$194,682,000 divided into 1,946,819,475 shares of HK\$0.10 each.



During the period under review, shares were issued upon the following:

Placing of shares

On 3 August 2009, an aggregate of 190,000,000 ordinary shares were placed at HK\$0.18 per share pursuant to the Top-up Placing and Subscription Agreement entered into on 20 July 2009. The net proceeds from the placement amounted to approximately HK\$33.35 million.

On 5 August 2009, an aggregate of 90,000,000 ordinary shares were placed at HK\$0.18 per share pursuant to the New Placing Agreement entered into on 20 July 2009. The net proceeds from the placement amounted to approximately HK\$15.8 million.

Conversion of convertible notes


On 10 September 2009, convertible notes in the principal amount of HK\$13.6 million were converted into 68,000,000 ordinary shares at a conversion price of HK\$0.20 per share.

As at 30 September 2009, the authorized share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each and the issued share capital of the Company was approximately HK\$229,482,000 divided into 2,294,819,475 shares of HK\$0.10 each.

Convertible Notes

Pursuant to the acquisition of 100% interest in New Beida Group, the Company issued convertible notes ("Convertible Notes 2008") as partial settlement of the acquisition consideration. The principal terms of the Convertible Notes 2008 are as follows:

Date of issue:	27 February 2008
Aggregate principal amount:	HK\$720,000,000
Interest rate per annum:	The notes do not bear any interest
Conversion price applicable:	HK\$0.20 per share, subject to adjustments
Maturity date:	36 months from the date of issue



As at 30 September 2009, the aggregate outstanding principal amount of the Convertible Notes 2008 was HK\$317,800,000. The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes 2008 would result in the issue and allotment of 1,589,000,000 new Shares in the Company.

Pursuant to the acquisition of 100% interest in IIN Medical (BVI) Group Limited and its subsidiaries (collectively referred to as "IIN Medical Group"), the Company issued convertible notes ("Convertible Notes 2009") as partial settlement of the acquisition consideration. The principal terms of the Convertible Notes 2009 are as follows:

Date of issue:	23 April 2009
Aggregate principal amount:	HK\$32,770,000
Interest rate per annum:	The notes do not bear any interest
Conversion price applicable:	HK\$0.32 per share, subject to adjustments
Maturity date:	48 months from the date of issue

As at 30 September 2009, the aggregate outstanding principal amount of the Convertible Notes 2009 was HK\$32,770,000. The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes 2009 would result in the issue and allotment of 102,406,250 new Shares in the Company.

Foreign exchange exposure

Most of the sales and expenditures of the Group were denominated in Hong Kong dollars and Renminbi. As the exchange rate between Hong Kong dollars and Renminbi is relatively stable and the expenditure in PRC was covered by the sales in PRC, the management considers that the Group has no significant foreign exchange exposures. As at 30 September 2009, the Group did not use any financial instrument for hedging the foreign exchange risk.

Significant investments

During the nine months ended 30 September 2009, save for the acquisition of IIN Medical Group, no significant investments were made by the Group.

Charges on the Group's assets

There were no material charges on the Group's assets as at 30 September 2009.

FUTURE PLAN FOR MATERIAL INVESTMENTS

On 26 June 2009, the Board announced that the Company entered into a letter of intent with an independent third party in relation to acquiring equity interest in an entity that is engaged in the business of operation of charge cards and the relevant payment systems, and establishment and operation of online payment and e-payment platforms in the PRC.

Upon the expiry of the exclusivity period under the letter of intent on 26 September 2009, the proposed acquisition discontinued.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2009, 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		Total	Percentage of issued share capital
		Ordinary shares	Share options		
Chen Hong	Beneficial owner	193,928,000	19,000,000	212,928,000	9.28%
Wang Hui	Beneficial owner	—	19,000,000	19,000,000	0.83%
Wei Jianya	Beneficial owner	—	7,000,000	7,000,000	0.31%

Save as disclosed above, as at 30 September 2009, 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 30 September 2009, 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	26.79%
Huang Qun (Note 2)	Beneficial owner	318,616,000	13.88%
Gong Di Qing (Note 3)	Beneficial owner	300,250,000	13.08%
Jia Zhe Jin (Note 4)	Beneficial owner	181,000,000	7.89%
Atlantis Investment Management Ltd	Investment manager	170,000,000	7.41%

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 convertible notes in the principal amount of HK\$60,000,000.
4. Interest in 181,000,000 shares or underlying shares, representing the conversion rights attached to the convertible notes in the principal amount of HK\$36,200,000.

Save as disclosed above, as at 30 September 2009, 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.

CORPORATE GOVERNANCE

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the nine months ended 30 September 2009.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. As at 30 September 2009, the committee comprised three independent non-executive Directors, namely Dr. Wong Yun Kuen, Ms. Chan Hoi Ling and Dr. Huang Chung Hsing.

The Group's unaudited condensed consolidated financial statements for the three months ended 30 September 2009 have been reviewed by the audit committee, which were of the opinion that such statements have complied with the applicable accounting standards and that adequate disclosures have been made.

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

Hong Kong, 11 November 2009

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