



Stock Code: 8055

中国网络教育集团有限公司

CHINA E-LEARNING GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

1st quarterly report

2010

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

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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 ("Directors") of China E-Learning Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2010, together with the comparative unaudited figures of the corresponding period in 2009, as follows:

CONSOLIDATED INCOME STATEMENT

(Unaudited)
For the three months
ended 31 March

	Note	2010 HK\$'000	2009 HK\$'000
Turnover	2	10,394	276
Cost of sales		(3,841)	(2,161)
Gross profit/(loss)		6,553	(1,885)
Other income	3	905	2
Selling expenses		(239)	(698)
Administrative expenses		(6,817)	(3,989)
Profit/(loss) from operations		402	(6,570)
Finance costs	4	(6,724)	(10,479)
Loss before taxation		(6,322)	(17,049)
Taxation	5	—	—
Loss for the period		(6,322)	(17,049)
Dividend	7	—	—
Loss for the period attributable to:			
Owners of the Company		(9,194)	(17,049)
Non-controlling interests		2,872	—
		(6,322)	(17,049)
Basic loss per share	6	(1.8) cents	(6.0) cents
Diluted loss per share	6	N/A	(restated) N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)
For the three months
ended 31 March

	2010 HK\$'000	2009 HK\$'000
Loss for the period	(6,322)	(17,049)
Other comprehensive expense for the period		
Exchange differences on translation of financial statements of overseas subsidiaries	(20)	(147)
Total comprehensive loss for the period	(6,342)	(17,196)
Total comprehensive loss for the period attributable to:		
Owners of the Company	(9,214)	(17,196)
Non-controlling interests	2,872	—
	(6,342)	(17,196)

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 accounting principles generally accepted in Hong Kong and the disclosure requirements of the Rules Governing the Listing of Securities on GEM.

The basis of preparation and accounting policies applied in the preparation of the quarterly financial statements are consistent with those adopted in the Company's annual financial statements for the year ended 31 December 2009.

The unaudited condensed consolidated financial statements for the three months ended 31 March 2010 have not been audited by the Company's auditors, but have been reviewed by the audit committee of the Company.

2. TURNOVER

Turnover represents revenue of the Group from the provision of distance learning programs and education consultation.

3. OTHER INCOME

	2010 HK\$'000	2009 HK\$'000
Gain on redemption of convertible notes	875	—
Interest income	18	2
Sundry income	12	—
	905	2

4. FINANCE COSTS

Finance costs represent interest expense on convertible notes stated at amortized cost.

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.

6. 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 three months ended 31 March	
	2010 HK\$'000	2009 HK\$'000
Unaudited loss for the period for the purposes of basic and diluted loss per share	(9,194)	(17,049)
Weighted average number of ordinary shares for the purpose of basic loss per share	511,889,689	282,763,895
Weighted average number of ordinary shares for the purpose of diluted loss per share	N/A	(restated) N/A

The weighted average number of ordinary shares for the three months ended 31 March 2009 has been adjusted retrospectively due to the share consolidation effective 17 December 2009.

Diluted loss per share for the three months ended 31 March 2010 was not presented because the Company's shares options and convertible loan notes outstanding during the three months ended 31 March 2010 had an anti-dilutive impact.

7. DIVIDEND

The Directors do not recommend payment of any dividend for the three months ended 31 March 2010. (2009: nil).

8. MOVEMENT OF RESERVES (UNAUDITED)

	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
As of 1 January 2009	130,605	24,632	24,415	3,454	173,974	(435,659)	(78,579)
Loss for the period	—	—	—	—	—	(17,049)	(17,049)
Other comprehensive loss	—	—	—	(147)	—	—	(147)
As of 31 March 2009	130,605	24,632	24,415	3,307	173,974	(452,708)	(95,775)
As of 1 January 2010	229,144	43,483	—	4,054	137,964	(891,001)	(476,356)
Loss for the period	—	—	—	—	—	(9,194)	(9,194)
Other comprehensive loss	—	—	—	(20)	—	—	(20)
Total comprehensive loss for the period	—	—	—	(20)	—	(9,194)	(9,214)
Issue of shares by conversion of convertible loan notes	119,127	—	—	—	(59,580)	—	59,547
Redemption of convertible loan notes	—	—	—	—	(690)	—	(690)
Subtotal	119,127	—	—	—	(60,270)	—	58,857
As of 31 March 2010	348,271	43,483	—	4,034	77,694	(900,195)	(426,713)

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

During the first quarter of 2010, IIN Medical (BVI) Group Limited and its subsidiaries (collectively referred to as "IIN Medical Group") that were acquired by the Group on 23 April 2009 continued to contribute income to the Group. Turnover for the first quarter of 2010 has therefore increased significantly compared to that for the last corresponding period.

FINANCIAL REVIEW

During the three months ended 31 March 2010, the Group recorded turnover of approximately HK\$10,394,000, representing an increase of approximately 3,766% compared with approximately HK\$276,000 in the last corresponding period.

The Group's net loss attributable to equity holders of the Company was approximately HK\$9,074,000, representing a decrease of 47% compared with approximately HK\$17,049,000 in the last corresponding period.

The decrease in net loss reflects the continued contribution from IIN Medical Group and the decrease in interest expense incurred on the convertible notes due to conversion and redemption of the convertible notes during the first quarter of 2010.

Share capital

As at 1 January 2010, the authorized share capital of the Company was HK\$1,000,000,000 divided into 2,000,000,000 shares of HK\$0.50 each and the issued share capital of the Company was approximately HK\$236,682,000 divided into 472,563,895 shares of HK\$0.50 each.

During the period under review, shares were issued upon conversion of convertible notes as follows:

Date of conversion	Principal amount of the convertible notes HK\$	Conversion price HK\$	Number of shares issued
18 January 2010	3,750,000	1.57	2,388,535
9 March 2010	150,000,000	0.98	153,061,224
	<u>153,750,000</u>		<u>155,449,759</u>

As at 31 March 2010, the authorized share capital of the Company was HK\$1,000,000,000 divided into 2,000,000,000 shares of HK\$0.50 each and the issued share capital of the Company was approximately HK\$314,007,000 divided into 628,013,654 shares of HK\$0.50 each.

Convertible Notes

Pursuant to the acquisition of 100% interest in New Beida Business StudyNet Group Limited ("New Bedia"), the Company issued convertible notes ("Convertible Notes 2008") as partial settlement of the acquisition consideration. 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\$0.98 per share, subject to adjustments
Maturity date	:	36 months from the date of issue

As at 31 March 2010, the aggregate outstanding principal amount of the Convertible Notes 2008 was HK\$134,200,000. The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes 2008 would result in the issue and allotment of 136,938,775 new Shares in the Company.

Pursuant to the acquisition of 100% interest in IIN Medical Group, the Company issued convertible notes ("Convertible Notes 2009") as partial settlement of the acquisition consideration. 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\$1.57 per share, subject to adjustments
Maturity date	:	Principal amount of approximately HK\$20,150,000 matured in 48 months from the date of issue and the remaining principal amount of approximately HK\$12,620,000 matured in 24 months from the date of issue

In addition to the conversion of the Convertible Notes 2009 as shown above, Convertible Notes 2009 in the principal amount of approximately HK\$2,495,000 were redeemed during the period under review. As at 31 March 2010, the aggregate outstanding principal amount of the Convertible Notes 2009 was approximately HK\$26,525,000. The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes 2009 would result in the issue and allotment of 16,894,946 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 the PRC was covered by the sales in the PRC, the management considers that the Group has no significant foreign exchange exposures. As at 31 March 2010, the Group did not use any financial instrument for hedging the foreign exchange risk.

Significant investments

During the three months ended 31 March 2010, no significant investments were made by the Group.

OUTLOOK

While we are planning to reorganize our business by discontinuing certain loss-making and risky projects in order to minimize the Group's exposure to financial as well as business risks, we continue to focus on developing new continuous education program in Chinese medicine as we expect IIN Medical Group will continue to contribute stable income as well as cash flows to the Group.

To improve the financial position of the Group, we are considering various alternatives to enlarge the Group's capital base, which include the proposed open offer that is subject to the relevant resolutions to be passed at the extraordinary general meeting to be held on 11 May 2010. Details of the proposed open offer are included in the Company's circular to shareholders dated 26 April 2010.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2010, 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			Percentage of issued share capital
		Ordinary shares	Share options	Total	
Chen Hong	Beneficial owner	38,785,600	3,800,000	42,585,600	6.78%
Wang Hui	Beneficial owner	—	3,800,000	3,800,000	0.61%
Wei Jianya	Beneficial owner	—	1,400,000	1,400,000	0.22%

Save as disclosed above, as at 31 March 2010, 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 March 2010, 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
		Ordinary shares	Share options	
Yang Dong Jun (Note 1)	Beneficial owner	116,788,416		18.60%
Huang Qun	Beneficial owner	64,539,526		10.28%

Name of Shareholder	Capacity	Number of shares or underlying shares held	Percentage of issued share capital
Gong Di Qing	Beneficial owner	61,274,490	9.76%
Jia Zhe Jin (Note 2)	Beneficial owner	36,938,775	5.88%
Atlantis Investment Management Limited (Note 3)	Investment manager	37,000,000	5.89%
Liu Yang (Note 3)	Interest of a controlled corporation	37,000,000	5.89%
Kingston Securities Limited (Note 4)	Other	870,812,628	51.22%
Galaxy Sky Investments Limited (Note 5)	Interest of a controlled corporation	870,812,628	51.22%
Eagle Mission Limited (Note 6)	Interest of a controlled corporation	870,812,628	51.22%
Active Dynamic Limited (Note 7)	Interest of a controlled corporation	870,812,628	51.22%
Chu Yuet Wah (Note 8)	Interest of a controlled corporation	870,812,628	51.22%

Notes:

- Interests in 116,788,416 shares or underlying shares comprise interest in 65,768,008 Shares and interest in 51,020,408 underlying Shares representing the conversion rights attached to the convertible notes in the principal amount of HK\$50,000,000.
- Interest in 36,938,775 shares or underlying shares represents the conversion rights attached to the convertible notes in the principal amount of HK\$36,200,000.

3. Atlantis Investment Management Limited is beneficially owned as to 40% by Ms. Liu Yang. Accordingly, Ms. Liu Yang is deemed to be interested in the 37,000,000 shares of the Company.
4. 870,812,628 shares represent the maximum number of Shares underwritten by Kingston Securities Limited under a proposed open offer as detailed in the Company's circular dated 26 April 2010. The percentage of issued share capital is calculated based on the number of shares as enlarged by the new shares to be allotted and issued under the open offer (i.e. 1,700,158,003 shares).
5. Kingston Securities Limited is wholly owned by Galaxy Sky Investments Limited, a company incorporated in the British Virgin Islands. Accordingly, Galaxy Sky Investments Limited is deemed to be interested in the 870,812,628 underlying shares of the Company. The percentage of issued share capital is calculated based on the number of shares as enlarged by the new shares to be allotted and issued under the open offer (i.e. 1,700,158,003 shares).
6. Galaxy Sky Investments Limited is wholly owned by Eagle Mission Limited, a company incorporated in the British Virgin Islands. Accordingly, Eagle Mission Limited is deemed to be interested in the 870,812,628 underlying shares of the Company. The percentage of issued share capital is calculated based on the number of shares as enlarged by the new shares to be allotted and issued under the open offer (i.e. 1,700,158,003 shares).
7. Eagle Mission Limited is beneficially owned as to 80% by Active Dynamic Limited, a company incorporated in the British Virgin Islands. Accordingly, Active Dynamic Limited is deemed to be interested in the 870,812,628 underlying shares of the Company. The percentage of issued share capital is calculated based on the number of shares as enlarged by the new shares to be allotted and issued under the open offer (i.e. 1,700,158,003 shares).
8. Active Dynamic Limited is wholly owned by Mrs. Chu Yuet Wah. Accordingly, Mrs. Chu Yuet Wah is deemed to be interested in the 870,812,628 underlying shares of the Company. The percentage of issued share capital is calculated based on the number of shares as enlarged by the new shares to be allotted and issued under the open offer (i.e. 1,700,158,003 shares).

Save as disclosed above, as at 31 March 2010, 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, with deviation from Code Provision A.4.1 of Appendix 15 of the GEM Listing Rules that requires that non-executive directors should be appointed for a specific term and subject to re-election. Currently, 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. As such, the Company considers that sufficient measures have been taken to serve the purpose of this code provision.

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 three months ended 31 March 2010.

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 31 March 2010, 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 31 March 2010 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, 7 May 2010

As at the date of this report, the Board comprises three executive Directors, namely Mr. Chen Hong (Chairman), Ms. Wang Hui and Ms. Wei Jianya; three independent non-executive Directors, namely Dr. Wong Yun Kuen, Ms. Chan Hoi Ling and Dr. Huang Chung Hsing.