



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)

**Interim** 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 present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six months and three months ended 30 June 2010, together with the comparative unaudited figures of the corresponding period in 2009, as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Turnover</b>	3	<b>21,179</b>	1,269	<b>10,785</b>	993
Cost of sales		<b>(5,904)</b>	(5,502)	<b>(2,063)</b>	(3,341)
Gross profit/(loss)		<b>15,275</b>	(4,233)	<b>8,722</b>	(2,348)
Other income	4	<b>18,980</b>	10	<b>18,075</b>	8
Fair value gain on financial assets		<b>225</b>	—	<b>225</b>	—
Administrative expenses		<b>(13,330)</b>	(8,946)	<b>(6,274)</b>	(4,259)
<b>Profit/(loss) from operations</b>		<b>21,150</b>	(13,169)	<b>20,748</b>	(6,599)
Finance costs	5	<b>(10,124)</b>	(20,764)	<b>(3,400)</b>	(10,285)
<b>Profit/(loss) before tax</b>	6	<b>11,026</b>	(33,933)	<b>17,348</b>	(16,884)
Income tax expenses	7	—	—	—	—
<b>Profit/(loss) for the period</b>		<b>11,026</b>	(33,933)	<b>17,348</b>	(16,884)
Attributable to:					
Owners of the Company		<b>5,164</b>	(33,933)	<b>14,358</b>	(16,884)
Non-controlling interests		<b>5,862</b>	—	<b>2,990</b>	—
		<b>11,026</b>	(33,933)	<b>17,348</b>	(16,884)
Dividend	8	—	—	—	—
<b>Basic earnings/(loss) per share</b>	9	<b>0.77 cents</b>	(2.33) cents	<b>1.74 cents</b>	(1.13) cents
<b>Diluted earnings/(loss) per share</b>	9	<b>N/A</b>	N/A	<b>N/A</b>	N/A

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Profit/(loss) for the period	11,026	(33,933)	17,348	(16,884)
Other comprehensive income:				
Exchange difference arising on translation of foreign operations	(23)	655	(3)	802
Total comprehensive income/(loss) for the period	11,003	(33,278)	17,345	(16,082)
Attributable to:				
Owners of the Company	5,141	(33,278)	14,355	(16,082)
Non-controlling interests	5,862	—	2,990	—

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Notes	(Unaudited) 30 June 2010 HK\$'000	(Audited) 31 December 2009 HK\$'000 (restated)
<b>Non-current assets</b>		
Plant and equipment	7,891	8,732
Owner-occupied leasehold interest in land	1,019	1,039
Other intangible assets	38	265
Goodwill	50,106	50,106
Financial derivative	—	316
	<b>59,054</b>	60,458
<b>Current assets</b>		
Inventories	120	132
Trade and other receivables	18,595	14,848
Owner-occupied leasehold interest in land	40	40
Amount due from minority shareholder of a subsidiary	461	460
Financial derivative	85	—
Financial assets at fair value through profit or loss	7,250	—
Cash and bank balances	68,999	37,218
	<b>95,550</b>	52,698
<b>Current liabilities</b>		
Trade and other payables	26,279	43,645
Tax payable	279	252
Amounts due to directors	116	116
Convertible notes payable	70,657	—
	<b>97,331</b>	44,013
<b>Net current (liabilities) assets</b>	<b>(1,781)</b>	8,685
<b>Non-current liabilities</b>		
Other loan	49,435	49,435
Financial derivative	1,140	1,640
Convertible notes payable	4,638	254,374
	<b>55,213</b>	305,449
<b>NET ASSETS (LIABILITIES)</b>	<b>2,060</b>	(236,306)
<b>CAPITAL AND RESERVE</b>		
Share capital	652,081	236,282
Reserves	(659,651)	(476,356)
Non-controlling interests	9,630	3,768
<b>TOTAL EQUITY</b>	<b>2,060</b>	(236,306)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited) (Unaudited)  
For the six months  
ended 30 June

	2010 HK\$'000	2009 HK\$'000
<b>Net cash outflow from operating activities</b>	<b>(9,432)</b>	(8,291)
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(1,163)</b>	10,911
<b>Net cash inflow from financing activities</b>	<b>42,392</b>	—
<b>Increase in cash and cash equivalents</b>	<b>31,797</b>	2,620
Cash and cash equivalents at the beginning of period	<b>37,218</b>	2,636
Effect of exchange rate changes	<b>(16)</b>	5
<b>Cash and cash equivalents at the end of period</b>	<b>68,999</b>	5,261
Analysis of the balance of cash and cash equivalents: Cash and bank balances	<b>68,999</b>	5,261

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	(Unaudited)									
	Share capital	Share premium	Share payment reserve	Capital reserve	Convertible note equity reserve	Exchange reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
As of 1 January 2009	141,382	130,605	24,632	24,415	173,974	3,454	(435,659)	62,803	—	62,803
Total comprehensive income/ (loss) for the period	—	—	—	—	—	655	(33,933)	(33,278)	—	(33,278)
Issue of shares by conversion of convertible notes	53,300	65,681	—	—	(42,342)	—	—	76,639	—	76,639
Equity component of convertible notes	—	—	—	—	24,522	—	—	24,522	—	24,522
As of 30 June 2009	194,682	196,286	24,632	24,415	156,154	4,109	(469,592)	130,686	—	130,686
As of 1 January 2010	236,282	229,144	43,483	—	137,964	4,054	(891,001)	(240,074)	3,768	(236,306)
Total comprehensive income/ (loss) for the period	—	—	—	—	—	(23)	5,164	5,141	5,862	11,003
Issue of shares by conversion of convertible notes	81,806	125,472	—	—	(66,274)	—	—	141,004	—	141,004
Issue of shares by open offer	111,331	—	—	—	—	—	—	111,331	—	111,331
Issue of bonus shares	222,662	(222,662)	—	—	—	—	—	—	—	—
Share issue expenses	—	(4,481)	—	—	—	—	—	(4,481)	—	(4,481)
Redemption of convertible notes	—	—	—	—	(20,491)	—	—	(20,491)	—	(20,491)
As of 30 June 2010	652,081	127,473	43,483	—	51,199	4,031	(885,837)	(7,570)	9,630	2,060

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL

The Company was 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 GEM of The Stock Exchange.

The address of the head office and principal place of business of the Company is Unit 3306, 33/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

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 and its subsidiaries (collectively the “Group”) are engaged in the provision of occupational education, industry certification course, skills trading and education consultation.

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2010 are consistent with those adopted in preparing the audited consolidated financial statements of the Group for the year ended 31 December 2009 except for the following amendments and interpretations (“New or Revised HKFRSs”) issued by HKICPA which are or have become effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners



The Group applies HKFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other New or Revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following New or Revised HKFRSs that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendment)	Classification of Rights Issues <sup>2</sup>
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
HKFRS 9	Financial Instruments <sup>5</sup>
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might not affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. **TURNOVER**

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

4. **OTHER INCOME**

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Gain on redemption of convertible notes	18,942	—	18,067	—
Interest income	26	10	8	8
Sundry income	12	—	—	—
	<b>18,980</b>	10	<b>18,075</b>	8

5. **FINANCE COSTS**

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Interest expenses on convertible notes measured at amortised cost	10,124	20,581	3,400	10,102
Fair value changes on financial derivative	—	183	—	183
	<b>10,124</b>	20,764	<b>3,400</b>	10,285

**6. PROFIT/(LOSS) BEFORE TAX**

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

	<b>(Unaudited)</b> <b>For the six months</b> <b>ended 30 June</b>		<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 June</b>	
	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000	<b>2010</b> <b>HK\$'000</b>	2009 HK\$'000
Depreciation of plant and equipment	<b>455</b>	589	<b>260</b>	346
Staff costs (including directors' emoluments)	<b>3,630</b>	3,721	<b>1,589</b>	1,866

**7. INCOME TAX EXPENSE**

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 PRC, the statutory enterprise income tax rate of 25% is applicable to the Group companies which operated in the PRC. No provision for PRC enterprise income tax has been made as the Group's entity that generated income for the period is a tax-exempted entity in the PRC.

**8. DIVIDEND**

The Directors do not recommend payment of interim dividend for the six months ended 30 June 2010 (2009: nil).

9. EARNINGS/(LOSS) PER SHARE

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

	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Unaudited earnings/(loss) for the period for the purpose of basic and diluted earnings/(loss) per share	5,164	(33,933)	14,358	(16,884)
	(Unaudited) For the six months ended 30 June		(Unaudited) For the three months ended 30 June	
Number of shares	2010	2009	2010	2009
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	670,237,447	1,455,852,624	825,136,881	1,497,423,871
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	N/A	N/A	N/A	N/A

Diluted earnings per share for the six months and three months ended 30 June 2010 are not presented because the Company's outstanding options and convertible loan notes outstanding during the six months and three months ended 30 June 2010 had an anti-dilutive impact.

**10. TRADE AND OTHER RECEIVABLES**

	<b>(Unaudited)</b> <b>30 June</b> <b>2010</b> <b>HK\$'000</b>	<b>(Audited)</b> <b>31 December</b> <b>2009</b> <b>HK\$'000</b>
<b>Trade receivables</b>	<b>916</b>	916
Less: impairment loss on trade receivables	<b>(916)</b>	(916)
	—	—
<b>Other receivables</b>		
Deposits and other receivables	<b>16,465</b>	13,524
Less: impairment loss on other receivables	<b>(1,176)</b>	(1,176)
Prepayments	<b>3,306</b>	2,500
	<b>18,595</b>	14,848

Aging of trade receivables has not been analysed as the net balances at the balance sheet dates were nil.

The carrying amounts of the trade and other receivables approximate their fair values.

**11. TRADE AND OTHER PAYABLES**

	<b>(Unaudited)</b> <b>30 June</b> <b>2010</b> <b>HK\$'000</b>	<b>(Audited)</b> <b>31 December</b> <b>2009</b> <b>HK\$'000</b> <b>(restated)</b>
Trade payable	<b>1,193</b>	1,179
Other payables	<b>18,004</b>	20,666
Receipts in advance	<b>5,420</b>	19,750
Accrued charges	<b>1,662</b>	2,050
	<b>26,279</b>	43,465

The aging analysis of trade payable as at the balance sheet date is as follows:

	<b>(Unaudited)</b> <b>30 June</b> <b>2010</b> <b>HK\$'000</b>	<b>(Audited)</b> <b>31 December</b> <b>2009</b> <b>HK\$'000</b>
Within 30 days	<b>14</b>	—
31 to 60 days	—	—
61 to 90 days	—	—
Over 90 days	<b>1,179</b>	1,179
	<b>1,193</b>	1,179

The carrying amounts of the trade and other payables approximate their fair values.

12. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary share of HK\$0.5 each		
Authorised		
At 1 January 2010	2,000,000,000	1,000,000
Increase of authorised capital (note a)	8,000,000,000	4,000,000
At 30 June 2010	10,000,000,000	5,000,000
Issue and fully paid		
At 1 January 2010	472,563,895	236,282
Issue of shares by conversion of convertible notes (note b)	163,613,024	81,806
Issue of shares by open offer (note c)	222,661,915	111,331
Issue of shares by bonus issue (note c)	445,323,830	222,662
At 30 June 2010	1,304,162,664	652,081

Note:

- (a) Pursuant to an ordinary resolution passed on 11 May 2010, the authorised share capital of the Company was increased from HK\$1,000,000,000 divided into 2,000,000,000 shares to HK\$5,000,000,000 divided into 10,000,000,000 shares by the creation of additional 8,000,000,000 shares.
- (b) During the six months ended 30 June 2010, shares were issued upon conversion of convertible notes as follows:

Date of conversion	Principal amount of 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
26 April 2010	8,000,000	0.98	8,163,265
	161,750,000		163,613,024

- (c) On 31 May 2010, the open offer of 222,661,915 offer shares at HK\$0.50 on the basis of 7 offer shares for every 20 shares with bonus issue on the basis of 2 bonus shares for every offer share taken up became unconditional.

### 13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2010 (31 December 2009: Nil).

### 14. COMMITMENTS

At 30 June 2010, the Group had the following commitments in respect of operating leases of rented premises and office equipment:

	<b>(Unaudited)</b> <b>30 June</b> <b>2010</b> <b>HK\$'000</b>	(Audited) 31 December 2009 HK\$'000
Within one year	<b>3,607</b>	3,993
In second to fifth years inclusive	<b>4,376</b>	5,156
Over five years	<b>83</b>	1,000
	<b>8,066</b>	10,149

### 15. RESTATEMENT OF COMPARATIVE FINANCIAL INFORMATION

On 23 April 2009, the Group acquired the entire interest in IIN Medical (BVI) Group Limited and its subsidiaries (collectively referred to as "IIN Medical Group"). At the time of the acquisition, an amount of approximately HK\$18,600,000, representing the unearned portion of tuition fees for educational programs that were in progress, had been received and recorded as IIN Medical Group's pre-acquisition revenue. This amount should have been presented as receipt in advance and recognised as revenue on a time-proportion basis, using the straight-line method, over the duration of the relevant educational programs. As such, the financial information of the year ended 31 December 2009 has been restated. The effects of the restatement by line items are as follows:

As at 31 December 2009:	<b>HK\$'000</b>
Increase in goodwill	18,600
Increase in trade and other payables	(18,600)

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS OVERVIEW

During the six months ended 30 June 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 six months of 2010 has therefore increased significantly compared to that for the last corresponding period.

### FINANCIAL REVIEW

During the six months ended 30 June 2010, the Group recorded turnover of approximately HK\$21,179,000, representing an increase of 1,569% compared with approximately HK\$1,269,000 in the last corresponding period.

The Group's net profit attributable to owners of the Company was approximately HK\$5,164,000 in contrast to net loss of approximately HK\$33,933,000 in the last corresponding period. The increase in net profit reflects the continuing contribution from IIN Medical Group and the gain on redemption of convertible notes.

### Liquidity and financial resources

During the period under review, the Group kept most of its cash in Hong Kong dollars and Renminbi and placed most of them in banks for interest. As at 30 June 2010, the Group had current assets of approximately HK\$96 million including cash and bank balances of approximately HK\$69 million. As at 30 June 2010, the Group did not have any bank borrowings. The Group had total assets of approximately HK\$155 million and total liabilities of approximately HK\$153 million, representing a gearing ratio (expressed as total liabilities to total assets) of approximately 0.99 as at 30 June 2010 as compared with approximately 3.09 revise as at 31 December 2009.



## Share capital

As at 1 January 2010, the authorised 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\$236,282,000 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 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
26 April 2010	8,000,000	0.98	8,163,265
	161,750,000		163,613,024

Pursuant to an ordinary resolution passed on 11 May 2010, the authorised share capital of the Company was increased from HK\$1,000,000,000 divided into 2,000,000,000 shares to HK\$5,000,000,000 divided into 10,000,000,000 shares by the creation of additional 8,000,000,000 shares.

On 31 May 2010, the open offer of 222,661,915 offer shares at HK\$0.50 on the basis of 7 offer shares for every 20 shares with bonus issue on the basis of 2 bonus shares for every offer share taken up became unconditional. The net proceeds from the open offer will be used for repayment of debts including convertible notes and for general working capital of the Group.

As at 30 June 2010, the authorised share capital of the Company was HK\$5,000,000,000 divided into 10,000,000,000 shares of HK\$0.50 each and the issued share capital of the Company was approximately HK\$652,081,000 divided into 1,304,162,664 shares of HK\$0.50 each.

## Convertible Notes

Pursuant to the acquisition of 100% interest in New Beida, 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\$0.63 per share (adjusted), subject to further adjustments
Maturity date:	36 months from the date of issue

As at 30 June 2010, the aggregate outstanding principal amount of the Convertible Notes 2008 was HK\$76,200,000. The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes 2008 would result in the issue and allotment of 120,952,380 new Shares in the Company.

Pursuant to the acquisition of 100% interest in IIN Medical (BVI), 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\$1.01 per share (adjusted), subject to further 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

As at 30 June 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 26,262,411 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 June 2010, the Group did not use any financial instrument for hedging the foreign exchange risk.

## **Significant investments**

During the six months ended 30 June 2010, 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 June 2010.

## **Employees Information**

As at 30 June 2010, the Group had 5 employees in Hong Kong and 50 employees in the PRC. During the period under review, the total staff costs amount to approximately HK\$3,630,000 (2009: approximately HK\$3,721,000), representing an decrease of approximately 2% as compared to the prior period. Total staff costs for the first half of 2010 remained at a level similar to that for the last corresponding period whilst number of employees decreased significantly during 2010 is mainly due to the effect on the acquisition of IIN Medical Group for the entire first half of 2010, compared to only four months in 2009, and the redundancy payments made to the employees laid off during the period under review.

The salaries and benefits of the Group's employees were kept at a market level and employees were 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 contribution to the mandatory provident fund and share options. During the six months ended 30 June 2010, no share options were granted to employees of the Group.

## FUTURE PLAN FOR MATERIAL INVESTMENTS

On 7 July 2010, the Board announced that the Company entered into a letter of intent with an independent third party (the "Counterparty") in relation to the cooperation between the Group and the Counterparty in developing various barytes mine projects in Guangxi, Hunan and Hubei provinces in the PRC currently owned by the Counterparty's subsidiaries.

As at the date of this report, the Board is still in the progress of reviewing the respective businesses and formal agreements have not been reached.

## OUTLOOK

While we are reorganising our business by discontinuing certain loss-making and risky projects in order to minimise the Group's exposure to financial and business risks, we continue to develop new continuous education program in Chinese medicine. During the period under review, the Joint Construction of Network Education College of Beijing University of Chinese Medicine Agreement (共建北京中醫藥大學網路教育學院協議書) entered into between Beijing University of Chinese Medicine and Hunan IIN Medical Network Technology Development Co., Ltd., a wholly owned subsidiary of the Company, on 29 July 2000 (the "Joint Construction Agreement") has been renewed. The renewed Joint Construction Agreement that is effective 30 June 2010 secures a stable income stream for the Group for the next ten years.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 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	79,510,480	6,377,306	85,887,786	6.59%
Wang Hui	Beneficial owner	—	6,377,306	6,377,306	0.49%
Wei Jianya	Beneficial owner	—	2,349,534	2,349,534	0.18%

Save as disclosed above, as at 30 June 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 30 June 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
Yang Dong Jun	Beneficial owner	147,554,896	11.31%
Atlantis Investment Management Limited (Note)	Investment manager	80,002,000	6.13%
Liu Yang (Note)	Interest of a controlled corporation	80,002,000	6.13%

Note: 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 80,002,000 shares of the Company.

Save as disclosed above, as at 30 June 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 six months ended 30 June 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 30 June 2010, the committee comprised three independent non-executive Directors, namely Dr. Huang Chung Hsing, Mr. Cheung Wai Tak and Mr. Wu Tao.

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 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.

## **CHANGES OF DIRECTORS**

On 10 June 2010, Ms. Wang Hui resigned as executive Director and was appointed as the Company's chief executive officer. On 11 June 2010, Ms. Chan Hoi Ling resigned as independent non-executive Director and Mr. Cheung Wai Tak was appointed to fill the vacancy. On 24 June 2010, Dr. Wong Yun Kuen resigned as independent non-executive Director and Mr. Wu Tao was appointed to fill the vacancy.

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

Hong Kong, 10 August 2010

*As at the date of this report, the Board comprises two executive Directors, namely Mr. Chen Hong (Chairman) and Ms. Wei Jianya; three independent non-executive Directors, namely Dr. Huang Chung Hsing, Mr. Cheung Wai Tak and Mr. Wu Tao.*