



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)

3rd quarterly report

2010

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 2010, together with the comparative unaudited figures of the corresponding period in 2009, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Turnover	2	26,365	3,298	5,186	2,029
Cost of sales		(7,257)	(12,919)	(1,353)	(7,417)
Gross profit/(loss)		19,108	(9,621)	3,833	(5,388)
Other income	3	19,075	633	95	623
Fair value gain on financial assets		850	—	625	—
Administrative expenses		(20,475)	(34,112)	(7,145)	(25,166)
Impairment losses	4	—	(360,295)	—	(360,295)
Profit/(Loss) from operations		18,558	(403,395)	(2,592)	(390,226)
Finance costs	5	(12,441)	(27,567)	(2,317)	(6,803)
Profit/(Loss) before tax		6,117	(430,962)	(4,909)	(397,029)
Income tax expense	6	—	—	—	—
Profit/(Loss) for the period		6,117	(430,962)	(4,909)	(397,029)
Attributable to:					
Owners of the Company		(1,774)	(430,962)	(6,938)	(397,029)
Non-controlling interests		7,891	—	2,029	—
		6,117	(430,962)	(4,909)	(397,029)
Dividend	7	—	—	—	—
Basic loss per share	8	(0.20) cents	(25.57) cents	(0.54) cents	(18.59) cents
Diluted loss per share	8	N/A	N/A	N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Profit/(loss) for the period	6,117	(430,962)	(4,909)	(397,029)
Other comprehensive income:				
Exchange difference arising on translation of foreign operations	248	585	271	(70)
Total comprehensive income/(loss) for the period	6,365	(430,377)	(4,638)	(397,099)
Attributable to:				
Owners of the Company	(1,526)	(430,377)	(6,667)	(397,099)
Non-controlling interests	7,891	—	2,029	—

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

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

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ 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 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.

The unaudited condensed consolidated financial statements for the three months and nine months ended 30 September 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

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Other income				
Gain on redemption of convertible notes	19,032	—	90	—
Interest income	29	26	3	16
Sundry income	14	—	2	—
Rental income	—	607	—	607
	19,075	633	95	623

4. IMPAIRMENT LOSSES

The amounts for the nine months and three months ended 30 September 2009 represented impairment losses on goodwill associated with the acquisition of New Beida Business StudyNet Group Limited and its subsidiaries and their intangible assets of approximately HK\$326,115,000 and HK\$34,180,000 respectively.

5. FINANCE COSTS

	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Interest expenses on convertible notes measured at amortized cost	12,441	27,384	2,317	6,803
Fair value changes on financial derivative	—	183	—	—
	12,441	27,567	2,317	6,803

6. 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 People's Republic of China (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.

7. DIVIDEND

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2010. (2009: nil).

8. 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	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Unaudited loss for the period for the purpose of basic and diluted loss per share	1,774	430,962	6,938	397,029

Number of shares	(Unaudited) For the nine months ended 30 September		(Unaudited) For the three months ended 30 September	
	2010	2009	2010	2009
Weighted average number of ordinary shares for the purpose of basic loss per share	885,042,680	1,685,116,178	1,293,472,946	2,136,167,301
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 2010 are not presented because the Company's share outstanding options and convertible notes had an anti-dilutive impact.

9. 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 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)
As of 1 January 2010	229,144	43,483	—	137,964	4,054	(891,001)	(476,356)
Total comprehensive income/(loss) for the period	—	—	—	—	248	(1,774)	(1,526)
Issue of shares by conversion of convertible notes	127,358	—	—	(70,270)	—	—	57,088
Issue of shares by open offer	—	—	—	—	—	—	—
Issue of bonus shares	(222,662)	—	—	—	—	—	(222,662)
Share issue expenses	(4,481)	—	—	—	—	—	(4,481)
Issue of convertible notes	—	—	—	4,561	—	—	4,561
Redemption of convertible notes	—	—	—	(20,575)	—	—	(20,575)
As of 30 September 2010	129,359	43,483	—	51,680	4,302	(892,775)	(663,951)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the nine months ended 30 September 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 revenue to the Group. Turnover for the nine months ended 30 September 2010 has therefore increased significantly compared to that for the last corresponding period.

FINANCIAL REVIEW

During the nine months ended 30 September 2010, the Group recorded turnover of approximately HK\$26,365,000, representing an increase of 699% compared with approximately HK\$3,298,000 in the last corresponding period.

The Group's net loss attributable to owners of the Company was approximately HK\$1,774,000 in contrast to net loss of approximately HK\$430,962,000 in the last corresponding period. The decrease in net loss is mainly attributable to the absence of impairment loss of approximately HK\$360,295,000 incurred in the last corresponding period, the continuing contribution from IIN Medical Group, the gain on redemption of convertible notes and the decrease in interest expense on convertible notes due to the conversion and redemption of the convertible notes during the nine months ended 30 September 2010.

Share capital

As at 1 July 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.

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
16 July 2010	4,262,060	1.01	4,219,850

As at 30 September 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\$654,191,000 divided into 1,308,382,514 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 September 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 15 July 2010
Aggregate principal amount:	HK\$39,550,000
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\$21,150,000 to be matured in 23 April 2013, principal amount of approximately HK\$12,620,000 to be matured in 23 April 2011, and the remaining principal amount of approximately HK\$6,780,000 to be matured in 15 July 2012

As at 30 September 2010, the aggregate outstanding principal amount of the Convertible Notes 2009 was HK\$28,711,662. The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes 2009 would result in the issue and allotment of 28,427,340 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 2010, the Group did not use any financial instrument for hedging the foreign exchange risk.

Significant investments

During the nine months ended 30 September 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 September 2010.

OUTLOOK

Upon the renewal of 共建北京中醫藥大學網路教育學院協議書 (Joint Construction of Network Education College of Beijing University of Chinese Medicine Agreement) entered into between Beijing University of Chinese Medicine and Hunan IIN Medical Network Technology Development Co., Ltd. ("Hunan IIN Medical"), a wholly owned subsidiary of the Company, Hunan IIN Medical has continued to contribute stable revenue as well as cash flows to the Group. The Directors will therefore continue to focus on developing new continued education program in Chinese Medicine.

In the meantime, the Directors will continue to scale down non-profitable operations and reduce overheads and costs with an aim to attain profits attributable to the shareholders of the Company.

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.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 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 and chief executive	Capacity	Number of shares or underlying shares held			Percentage of issued share capital
		Ordinary shares	Share options	Total	
Chen Hong (Director)	Beneficial owner	79,510,480	6,377,306	85,887,786	6.56%
Wang Hui (Chief Executive)	Beneficial owner	—	6,377,306	6,377,306	0.49%
Wei Jianya (Director)	Beneficial owner	—	2,349,534	2,349,534	0.18%

Save as disclosed above, as at 30 September 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 DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 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	11.28%
Atlantis Investment Management Limited	Investment manager	77,866,000	5.95%
Liu Yang (Note)	Interest of a controlled corporation	77,866,000	5.95%

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 77,866,000 shares of the Company.

Save as disclosed above, as at 30 September 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 nine months ended 30 September 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 September 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 nine months ended 30 September 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, 12 November 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.