

2011 Interim 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”)

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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 2011, together with the comparative unaudited figures of the corresponding period in 2010, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Note | (Unaudited) For the six months ended 30 June | | (Unaudited) For the three months ended 30 June | |
|---|------|--|------------------|--|------------------|
| | | 2011 HK\$'000 | 2010 HK\$'000 | 2011 HK\$'000 | 2010 HK\$'000 |
| Turnover | 3 | 26,103 | 21,179 | 10,883 | 10,785 |
| Cost of sales | | (6,324) | (5,904) | (3,035) | (2,063) |
| Gross profit | | 19,779 | 15,275 | 7,848 | 8,722 |
| Other income | 4 | 1,005 | 18,980 | 412 | 18,075 |
| Fair value gain on financial assets | | – | 225 | – | 225 |
| Administrative expenses | | (15,470) | (13,330) | (7,135) | (6,274) |
| Profit from operations | | 5,314 | 21,150 | 1,125 | 20,748 |
| Finance costs | 5 | (1,572) | (10,124) | (124) | (3,400) |
| Profit before tax | 6 | 3,742 | 11,026 | 1,001 | 17,348 |
| Income tax credit | 7 | – | – | – | – |
| Profit for the period | | 3,742 | 11,026 | 1,001 | 17,348 |
| Attributable to: | | | | | |
| Owners of the Company | | (6,336) | 5,164 | (3,146) | 14,358 |
| Non-controlling interests | | 10,078 | 5,862 | 4,147 | 2,990 |
| | | 3,742 | 11,026 | 1,001 | 17,348 |
| (Loss)/Earnings per share (HK cents) | | | | | |
| – Basic | 9 | (0.48) cents | 0.77 cents | (0.24) cents | 1.74 cents |
| – Diluted | 9 | N/A | N/A | N/A | N/A |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | (Unaudited) For the six months ended 30 June | | (Unaudited) For the three months ended 30 June | |
|---|--|------------------|--|------------------|
| | 2011 HK\$'000 | 2010 HK\$'000 | 2011 HK\$'000 | 2010 HK\$'000 |
| Profit for the period | 3,742 | 11,026 | 1,001 | 17,348 |
| Other comprehensive income: | | | | |
| Exchange difference arising on translation of foreign operations | (1,454) | (23) | (1,447) | (3) |
| Changes in fair value of available-for-sale financial assets | – | – | (875) | – |
| Total comprehensive income/(loss) for the period | 2,288 | 11,003 | (1,321) | 17,345 |
| Attributable to: | | | | |
| Owners of the Company | (7,790) | 5,141 | (5,498) | 14,355 |
| Non-controlling interests | 10,078 | 5,862 | 4,147 | 2,990 |
| | 2,288 | 11,003 | (1,321) | 17,345 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | (Unaudited) 30 June 2011 HK\$'000 | (Audited) 31 December 2010 HK\$'000 |
|---|-------|--|--|
| Non-current assets | | | |
| Property, plant and equipment | | 6,183 | 4,783 |
| Available-for-sale financial assets | | 8,375 | 9,250 |
| Financial derivatives | | 26,730 | – |
| | | 41,288 | 14,033 |
| Current assets | | | |
| Inventories | | 105 | 103 |
| Trade and other receivables | 10 | 84,326 | 62,148 |
| Financial derivatives | | – | 1,399 |
| Cash and cash equivalents | | 27,254 | 33,717 |
| | | 111,685 | 97,367 |
| TOTAL ASSETS | | 152,973 | 111,400 |
| Current liabilities | | | |
| Trade and other payables | 11 | 48,250 | 30,792 |
| Income tax payable | | 12 | 62 |
| Amounts due to directors | | 116 | 116 |
| Financial derivatives | | – | 1,955 |
| Convertible notes | | 35,588 | 80,922 |
| | | 83,966 | 113,847 |
| Non-current liabilities | | | |
| Other loan | | – | 49,435 |
| Financial derivatives | | 9,374 | – |
| Convertible notes | | 69,496 | – |
| | | 78,870 | 49,435 |
| TOTAL LIABILITIES | | 162,836 | 163,282 |
| NET CURRENT ASSETS (LIABILITIES) | | 27,719 | (16,480) |
| NET LIABILITIES | | (9,863) | (51,882) |
| CAPITAL AND RESERVE | | | |
| Share capital | 12 | 661,143 | 655,385 |
| Reserves | | (674,774) | (711,035) |
| Non-controlling interests | | 3,768 | 3,768 |
| TOTAL EQUITY | | (9,863) | (51,882) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | (Unaudited) | (Unaudited) |
|--|----------------------------------|-------------|
| | For the six months ended 30 June | |
| | 2011 | 2010 |
| | HK\$'000 | HK\$'000 |
| Net cash outflow from operating activities | (78,234) | (9,432) |
| Net cash (outflow)/inflow from investing activities | 10,078 | (1,163) |
| Net cash inflow from financing activities | 63,147 | 42,392 |
| Increase in cash and cash equivalents | (5,009) | 31,797 |
| Cash and cash equivalents at the beginning of period | 33,717 | 37,218 |
| Effect of exchange rate changes | (1,454) | (16) |
| Cash and cash equivalents at the end of period | 27,254 | 68,999 |
| Analysis of the balance of cash and cash equivalents: | | |
| Cash and bank balances | 27,254 | 68,999 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

| | (Unaudited) | | | | | | | | | | |
|--|---------------|---------------|-----------------------------|-----------------|------------------------------|---------------------------------|---|--------------------|-----------|---------------------------|--------------|
| | Share capital | Share premium | Share-based payment reserve | Capital reserve | Exchange fluctuation reserve | Convertible note equity reserve | Available-for-sale financial assets reserve | Accumulated losses | Total | Non-controlling interests | Total equity |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| As of 1 January 2010 | 236,282 | 229,144 | 43,483 | — | 4,054 | 137,964 | — | (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 | — | 4,031 | 51,199 | — | (885,837) | (7,570) | 9,630 | 2,060 |
| As of 1 January 2011 | 655,385 | 130,354 | 43,483 | — | 6,114 | 49,688 | 2,225 | (942,899) | (55,650) | 3,768 | (51,882) |
| Total comprehensive income/ (loss) for the period | — | — | — | — | (1,454) | — | — | (6,336) | (7,790) | 10,078 | 2,288 |
| Issue of shares by conversion of convertible notes | 5,758 | 2,834 | — | — | — | (6,142) | — | — | 2,450 | — | 2,450 |
| Redemption of convertible notes | — | — | — | — | — | (684) | — | — | (684) | — | (684) |
| Settlement of convertible notes | — | — | — | — | — | 38,840 | — | — | 38,840 | — | 38,840 |
| Fair value adjustment of financial assets | — | — | — | — | — | — | (875) | — | (875) | — | (875) |
| As of 30 June 2011 | 661,143 | 133,188 | 43,483 | — | 4,660 | 81,702 | 1,350 | (949,235) | (23,709) | 13,846 | (9,863) |

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are derived from the provisions of occupational education, industry certification course, skills training and education consultation services.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2011 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 applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and the Hong Kong Companies Ordinance.

These unaudited interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010. They have been prepared on the historical cost basis.

The basis of preparation and accounting policies applied in the preparation of the unaudited condensed consolidated financial statements are consistent with those applied in the Group's annual audited consolidated financial statements for the year ended 31 December 2010.

The Group has adopted all of the new and revised standards, amendments and interpretations which are relevant to its operations and effective for the accounting periods beginning on or after 1 January 2010. The adoption of these new and revised standards, amendments and interpretations does not have significant impact on the accounting policies of the Group, and the amounts reported for the current period and prior periods.

The Group has not early adopted the new and revised standards that have been issued but are not yet effective. The directors anticipate that the application of the new and revised standards will have no material impact on the results and 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 | |
|--|--|------------------|--|------------------|
| | 2011 HK\$'000 | 2010 HK\$'000 | 2011 HK\$'000 | 2010 HK\$'000 |
| Gain on redemption of convertible notes | 940 | 18,942 | 411 | 18,067 |
| Interest income | – | 26 | – | 8 |
| Sundry income | 65 | 12 | 1 | – |
| | 1,005 | 18,980 | 412 | 18,075 |

5. FINANCE COSTS

| | (Unaudited) For the six months ended 30 June | | (Unaudited) For the three months ended 30 June | |
|---|--|------------------|--|------------------|
| | 2011 HK\$'000 | 2010 HK\$'000 | 2011 HK\$'000 | 2010 HK\$'000 |
| Interest expenses on convertible notes measured at amortised cost | 1,572 | 10,124 | 124 | 3,400 |
| | 1,572 | 10,124 | 124 | 3,400 |

6. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

| | (Unaudited) For the six months ended 30 June | | (Unaudited) For the three months ended 30 June | |
|--|--|------------------|--|------------------|
| | 2011 HK\$'000 | 2010 HK\$'000 | 2011 HK\$'000 | 2010 HK\$'000 |
| Depreciation of property, plant and equipment | 909 | 455 | 375 | 260 |
| Staff costs (including directors' emoluments) | 5,782 | 3,630 | 2,414 | 1,589 |

7. INCOME TAX CREDIT

No provision for Hong Kong Profits Tax has been made as the Group did not generate any taxable profits in Hong Kong for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods. No provision for PRC enterprise income tax has been made as the subsidiary 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 2011 (2010: nil).

9. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to the owners 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 | |
|---|--|------------------|--|------------------|
| | 2011 HK\$'000 | 2010 HK\$'000 | 2011 HK\$'000 | 2010 HK\$'000 |
| Unaudited (loss)/earnings for the period for the purpose of basic and diluted (loss)/earnings per share | (6,336) | 5,164 | (3,146) | 14,358 |

| Number of shares | (Unaudited) For the six months ended 30 June | | (Unaudited) For the three months ended 30 June | |
|---|--|-------------|--|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share | 1,318,881,865 | 670,237,447 | 1,321,257,329 | 825,136,881 |
| Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share | N/A | N/A | N/A | N/A |

No diluted (loss)/earnings per share has been presented for the six months and three months ended 30 June 2011 because the Company's outstanding options and convertible loan notes outstanding during the six months and three months ended 30 June 2011 had an anti-dilutive impact.

10. TRADE AND OTHER RECEIVABLES

| | (Unaudited) 30 June 2011 HK\$'000 | (Audited) 31 December 2010 HK\$'000 |
|--------------------------|--|--|
| Trade receivables | 418 | 1,313 |
| Less: impairment loss | (12) | (916) |
| | 406 | 397 |
| Other receivables | 81,182 | 39,664 |
| Less: impairment loss | – | (19,818) |
| Prepayments and deposits | 2,738 | 41,905 |
| | 84,326 | 62,148 |

The aging analysis of trade receivables net of provisions for impairment at the balance sheet date is as follows:

| | (Unaudited) 30 June 2011 HK\$'000 | (Audited) 31 December 2010 HK\$'000 |
|----------------|--|--|
| Within 30 days | – | – |
| 31 to 60 days | – | – |
| 61 to 90 days | – | – |
| Over 90 days | 406 | 397 |
| | 406 | 397 |

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

11. TRADE AND OTHER PAYABLES

| | (Unaudited) 30 June 2011 HK\$'000 | (Audited) 31 December 2010 HK\$'000 |
|---------------------|--|--|
| Trade payable | 28 | 28 |
| Other payables | 42,339 | 5,570 |
| Receipts in advance | 3,128 | 21,786 |
| Accrued charges | 2,755 | 3,408 |
| | 48,250 | 30,792 |

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

| | (Unaudited) 30 June 2011 HK\$'000 | (Audited) 31 December 2010 HK\$'000 |
|----------------|--|--|
| Within 30 days | – | – |
| 31 to 60 days | – | – |
| 61 to 90 days | – | 1 |
| Over 90 days | 28 | 27 |
| | 28 | 28 |

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 2011 | 10,000,000,000 | 5,000,000 |
| At 30 June 2011 | 10,000,000,000 | 5,000,000 |
| Issued and fully paid | | |
| At 1 January 2011 | 1,310,770,439 | 655,385 |
| Issue of shares by conversion of convertible notes (note) | 11,515,381 | 5,758 |
| At 30 June 2011 | 1,322,285,820 | 661,143 |

Note: During the six months ended 30 June 2011, 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 |
|--------------------|---|--------------------------|-------------------------|
| 14 January 2011 | 3,750,000 | 1.01 | 3,712,871 |
| 18 January 2011 | 3,154,106 | 1.01 | 3,122,877 |
| 21 April 2011 | 4,726,441 | 1.01 | 4,679,633 |
| | 11,630,547 | | 11,515,381 |

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2011 (31 December 2010: Nil).

14. COMMITMENTS

At 30 June 2011, the Group had the following commitments in respect of operating leases of rented premises and office equipment:

| | (Unaudited) 30 June 2011 HK\$'000 | (Audited) 31 December 2010 HK\$'000 |
|------------------------------------|--|--|
| Within one year | 2,128 | 1,729 |
| In second to fifth years inclusive | 1,623 | 1,496 |
| Over five years | - | - |
| | 3,751 | 3,225 |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group's medical education business continued to grow, with business turnover increased by 23.2% to reach approximately HK\$26.1 million.

The overall equity position also improved significantly with net asset increased by approximately HK\$42.0 million, due mainly to an increase in the equity reserve by approximately HK\$38.8 million as a result of the re-organisation of convertible notes, and an increase in share capital by approximately HK\$5.7 million as a result of the conversion of the convertible notes.

FINANCIAL REVIEW

During the six months ended 30 June 2011, the Group recorded turnover of approximately HK\$26.1 million, representing an increase of 23.2% compared with approximately HK\$21.1 million in the last corresponding period.

The Group's gross profit was approximately HK\$19.8 million for the six months ended 30 June 2011, recording a 29.5% increase from the last corresponding period in year 2010, comparing with approximately HK\$15.3 million.

Other income comprises mainly the gain on redemption of convertible notes, decreasing from approximately HK\$19.0 million in 2010 to approximately HK\$0.9 million in 2011.

Finance costs on the convertible notes were decreased by 84.5% from approximately HK\$10.1 million to approximately HK\$1.6 million when the convertible notes decreased from approximately HK\$254.0 million as of 1 January 2010 to approximately HK\$80.9 million as of 1 January 2011.

The profit for the current period was approximately HK\$3.7 million, representing a decrease of approximately 66.1% when compared with approximately HK\$11.0 million in the last corresponding period.

The Group's net result attributable to the owners of the Company for the current period was a net loss of approximately HK\$6.3 million in contrast to the net profit of approximately HK\$5.1 million in the last corresponding period, mainly due to the drop in the profit sharing ratio for the Group from 60% to 51% and smaller gain on the redemption of the convertible notes.

OUTLOOK

In order to improve the business model for the Group, the management has been exploring existing and new business opportunities, utilising our computer networking capability. A letter of intent was signed to launch the “Medical Access Card Integrated Operation and Service Platform”, as announced on 26 April 2011.

The Board is still looking for similar opportunity and is hopeful that some agreements can be concluded within this financial year.

Liquidity and financial resources

As at 30 June 2011, the Group had current assets of approximately HK\$112 million including cash and bank balances of approximately HK\$27 million, and the Group did not have any bank borrowings. Total assets were approximately HK\$153 million and total liabilities were approximately HK\$163 million, representing a gearing ratio (expressed as total liabilities to total assets) of approximately 1.06, as compared with approximately 1.47 at the beginning of the year 2011.

Share capital

As at 1 January 2011, 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\$655,385,000 divided into 1,310,770,439 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 |
|--------------------|--|-----------------------------|----------------------------|
| 14 January 2011 | 3,750,000 | 1.01 | 3,712,871 |
| 18 January 2011 | 3,154,106 | 1.01 | 3,122,877 |
| 21 April 2011 | 4,726,441 | 1.01 | 4,679,633 |
| | 11,630,547 | | 11,515,381 |

As at 30 June 2011, 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\$661,143,000 divided into 1,322,285,820 shares of HK\$0.50 each.

Convertible Notes

Convertible Notes 2009

Pursuant to the acquisition of 100% interest in IIN Medical (BVI) Group, the Company issued convertible notes (“Convertible Notes 2009”) as partial settlement of the acquisition consideration on 23 April 2009. The aggregate principal of the Convertible Notes 2009 amounted to HK\$32,770,000. The Convertible Notes 2009 are interest free, with a principal amount of approximately HK\$20,150,000 maturing in 48 months from the date of issue and the remaining principal amount of approximately HK\$12,620,000 maturing in 24 months from the date of issue and convertible into ordinary shares at conversion price of HK\$1.01 (2010: HK\$1.57) per share, subject to adjustments.

On 15 July 2010, an aggregate principal of the Convertible Notes 2009 amounted to HK\$6,780,000 were issued as the final payment for the acquisition of the entire issued share capital of IIN Medical (BVI) Group. The Convertible Notes 2009 are interest free, with a principle amount of HK\$4,154,106 maturing in 48 months from the date of issue and the remaining principal amount of HK\$2,625,894 maturing in 24 months from the date of issue and convertible into ordinary shares at conversion price of HK\$1.01 per share, subject to adjustments.

As at 1 January 2011, the aggregate outstanding principal amount of the Convertible Notes was HK\$25,620,217 (2010: 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 25,366,551 new shares in the Company.

In addition to the conversion of the Convertible Notes 2009 as shown above, Convertible Note 2009 in the principal amount of HK\$3,827,515 were redeemed during the period under review. As at 30 June 2011, the aggregate outstanding principal amount of the Convertible Notes 2009 was approximately HK\$10,162,000. The exercise in full of conversion rights vested with the Company’s outstanding Convertible Notes 2009 would result in the issue and allotment of 10,061,540 new Shares of the Company.

Convertible Notes 2011

The Group had reached several agreements with the holders of the Convertible Notes 2008 which became mature on 28 February 2011, and a promissory note for approximately HK\$50 million for a settlement. In order to be able to raise sufficient fund for the settlement, the Group issued two tranches of convertible notes (“Convertible Notes 2011 A”) on 9 May 2011 and (“Convertible Notes 2011 B”) on 11 May 2011.

The aggregate principal of Convertible Notes 2011 A amounted to HK\$89,999,934, bearing an interest of 1% per annum, maturing in 36 months from the date of issue, and convertible into ordinary shares at conversion price of HK\$0.50 per share, subject to adjustments.

The aggregate principal of Convertible Notes 2011 B amounted to HK\$36,200,000, bearing an interest of 1% per annum, maturing in 6 months from the date of issue, and convertible into ordinary shares at conversion price of HK\$0.50 per share, subject to adjustments.

As at 30 June 2011, the aggregate outstanding principal amount of the Convertible Notes 2011 was HK\$126,199,934. The exercise in full of the vested conversion rights would result in the issue and allotment of 252,399,868 new Shares of the Company.

Foreign exchange exposure

Most of the Group's assets, liabilities and transactions are 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. Foreign exchange risk arising from the normal course of operations is considered to be minimal. As at 30 June 2011, the Group has no foreign currency borrowings and has not used any financial instrument for hedging the foreign exchange risk.

Significant investments

During the six months ended 30 June 2011, 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 2011.

Employees Information

As at 30 June 2011, the Group had 5 employees in Hong Kong and 49 employees in the PRC. During the period under review, the total staff costs amount to approximately HK\$5,782,000 (2010: approximately HK\$3,630,000), representing an increase of approximately 59% over the prior period. The increase in staff costs was mainly attributable to the end-of-term contractual payments to directors for approximately HK\$1,600,000 in the current period.

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 2011, no share options were granted to employees of the Group.

FUTURE PLAN FOR MATERIAL INVESTMENTS

On 13 June 2011, the Group announced that, on 10 June 2011, a letter of intent was signed between Beijing Hua Tuo Education Technology Company Limited ("Hua Tuo"), a wholly owned subsidiary of the Company, and Mr. Yang Bo, Mr. Wang Ren and Ms. Yuan Qun (the "Counterparty"), in relation to the proposed acquisition of part of the revenue sharing right in Beijing Everjoy Cultural Communication Co. Ltd. (北京春秋永樂文化傳播有限公司) ("Everjoy") held by the Counterparty, to promote the development of businesses of both parties.

Everjoy, holding Permit for Telecommunications and Information Services Businesses* (《電信與資訊服務業務經營許可證書》) and Permit for Commercial Performances* (《營業性演出許可證》) issued by the Chinese authority, is a company having main lines of businesses on the operations of commercial performance activities and sports games events, as well as associated ticket sales, with extensive experiences in the ticket operations of cultural performances and sports events, and with its performance in a leading position nationwide. Mr. Yang Bo, Mr. Wang Ren and Ms. Yuan Qun hold respectively 42.5%, 42.5% and 15% shareholding in Everjoy.

The Group strongly believes that through the co-operation and investment in the Counterparty, the enhancement of the edges and resources of both parties, and extending the participation in Everjoy and the development of business, it will urge China E-Learning to be able to enter into the market of the commercial performance activities and sports events operations and associated ticket selling businesses in all round, so as to create and to increase sources of income and earnings of China E-Learning. Hence, the Board is in the opinion that the entering into of the Letter of Intent is in the interest of China E-Learning and its shareholders as a whole.

On 8 July 2011, the Group further announced that, since the entering into of the Letter of Intent, due diligence investigations were in sound progress. Hua Tuo and the Counterparty had been undergoing active negotiations on the major terms of the formal agreement and good progress had been made in such negotiations. Finalisation of the major terms was subject to auditing and confirmation in respect of the financial and profit information of Everjoy by the auditors appointed by both parties.

The Group will issue further announcement in respect of the possible acquisition in accordance with the requirements of the Listing Rules and take prompt actions to make necessary disclosure and obtain approval as required under the Listing Rules should the formal agreement be signed between the parties.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2011, 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 (Director) | Beneficial owner | 79,510,480 | 6,377,306 | 85,887,786 | 6.50% |
| Wang Hui (Chief Executive) | Beneficial owner | — | 6,377,306 | 6,377,306 | 0.48% |
| Wei Jianya (Director) | Beneficial owner | — | 2,349,534 | 2,349,534 | 0.18% |

Save as disclosed above, as at 30 June 2011, 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 June 2011, 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 | 11.16% |
| Atlantis Investment Management (Hong Kong) Limited | Investment manager | 80,058,000 | 6.05% |
| Liu Yang | Interest of a controlled corporation | 80,058,000 | 6.05% |

Save as disclosed above, as at 30 June 2011, 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 all 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, nor the substantial shareholders of the Company and their respective associates had any interest in any business that directly or indirectly competed 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 2011.

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 with 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 2011, the committee comprised three independent non-executive Directors, namely Mr. Cheung Wai Tak (the Chairman of the Committee), Dr. Huang Chung Hsing and Mr. Wu Tao.

The audit committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2011, and recommended the Board to adopt the interim report for 2011.

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

Hong Kong, 9 August 2011

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.