

2012

First Quarterly Report
第一季度業績報告



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)
(於開曼群島註冊成立之有限公司)

Stock Code 股份代號: 8055

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on The Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of China E-Learning Group Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

The board (the “Board”) of directors (“Directors”) of China E-Learning Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2012, together with the comparative unaudited figures of the corresponding period in 2011, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Three months ended 31 March	
		2012 HK\$'000	2011 HK\$'000
Turnover	3	10,559	15,220
Cost of sales		(2,081)	(3,289)
Gross profit		8,478	11,931
Other income	4	53	593
Selling expenses		(1,001)	(984)
Administrative expenses		(5,753)	(7,351)
Other expenses		(123)	–
Profit from operations		1,654	4,189
Finance costs, net	5	(780)	(1,448)
Profit before tax		874	2,741
Income tax	6	–	–
Profit for the period		874	2,741
Attributable to:			
Owners of the Company		(3,822)	(3,190)
Non-controlling interests		4,696	5,931
		874	2,741
Loss per share attributable to owners of the Company (HK cents)	7		
– Basic		(0.26)	(0.24)
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	Three months ended	
	31 March	
	2012	2011
	HK\$'000	HK\$'000
Profit for the period	874	2,741
Other comprehensive income for the period		
Exchange differences arising on translation of foreign operations	2,035	(7)
Changes in fair value of available-for-sale financial assets	(387)	(875)
Reclassification adjustments for losses on the disposal of available-for-sale financial assets included in profit	123	–
Total comprehensive profit for the period	2,645	1,859
Attributable to:		
Owners of the Company	(2,051)	(4,072)
Non-controlling interests	4,696	5,931
	2,645	1,859

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

The unaudited condensed consolidated financial statements for the three months ended 31 March 2012 have been prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations (the "standards") issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

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 financial statements for the year ended 31 December 2011. The condensed consolidated financial statements are unaudited, but have been reviewed by the audit committee (the "Audit Committee") of the Company.

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 2011. 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)	
	Three months ended	
	31 March	
	2012	2011
	HK\$'000	HK\$'000
Gain on redemption of convertible notes	–	529
Sundry income	53	64
	53	593

5. FINANCE COSTS

Finance costs represent interest expense on convertible notes measured at amortised cost.

6. INCOME TAX

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.

7. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	(Unaudited)	
	Three months ended	
	31 March	
	2012	2011
	HK\$'000	HK\$'000
Unaudited loss for the period for the purposes of basic and diluted loss per share	(3,822)	(3,190)
Weighted average number of ordinary shares for the purpose of basic loss per share	1,467,565,082	1,316,480,007
Weighted average number of ordinary shares for the purpose of diluted loss per share	N/A	N/A

No diluted loss per share has been presented for both periods ended 31 March 2011 and 2012 because the Company's outstanding shares options and convertible notes during the three months ended 31 March 2012 had an anti-dilutive impact.

8. DIVIDEND

The Directors do not recommend payment of any dividend for the three months ended 31 March 2012. (2011: nil).

9. MOVEMENT OF RESERVES (UNAUDITED)

	Share premium HK\$'000	Share-based payment reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Convertible notes Equity reserve HK\$'000	Available-for-sale financial assets valuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2011	130,354	43,483	6,114	49,688	2,225	(942,899)	(711,035)
Loss for the period	-	-	-	-	-	(3,190)	(3,190)
Other comprehensive loss	-	-	(7)	-	(875)	-	(882)
Total comprehensive loss for the period	-	-	(7)	-	(875)	(3,190)	(4,072)
Issue of shares by conversion of convertible notes	1,659	-	-	-	-	-	1,659
Redemption of convertible notes	-	-	-	(403)	-	-	(403)
Subtotal	1,659	-	-	(403)	-	-	1,256
At 31 March 2011	132,013	43,483	6,107	49,285	1,350	(946,089)	(713,851)
At 1 January 2012	171,329	14,494	9,166	8,041	(2,517)	(951,166)	(750,653)
Loss for the period	-	-	-	-	-	(3,822)	(3,822)
Other comprehensive income	-	-	2,035	-	(387)	884	2,532
Total comprehensive profit for the period	-	-	2,035	-	(387)	(2,938)	(1,290)
Issue of shares by conversion of convertible notes	1,893	-	-	(240)	-	-	1,653
Redemption of convertible notes	-	-	-	(360)	-	-	(360)
Reclassification adjustment for changes in AFS financial assets	-	-	-	-	1,847	-	1,847
Subtotal	1,893	-	-	(600)	1,847	-	3,140
At 31 March 2012	173,222	14,494	11,201	7,441	(1,057)	(954,104)	(748,803)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group's medical education business in the first quarter was somewhat slower than the same period last year. The management, however, expects business to return to normal when the new intakes complete their medical checkup during the registration process.

FINANCIAL REVIEW

For the three months ended 31 March 2012, the Group recorded revenue of approximately HK\$10,559,000 (2011: HK\$15,220,000) representing tuition fee revenue and sales of educational products. Revenue decreased because there was a delay in the spring intakes as the new registrants had yet to complete the health checkup in the first quarter. Gross profit was approximately HK\$8,478,000 (2011: HK\$11,931,000), representing a gross profit margin of 80.3% for the period under review.

During the period, cost of sales was approximately HK\$2,081,000 (2011: HK\$3,289,000) representing the direct wages and overheads incurred in the distance learning courses.

Other income was approximately HK\$53,000 (2011: HK\$593,000) representing a sundry income of approximately HK\$53,000 (2011: HK\$64,000) and there is no gain on redemption of convertible notes (2011: HK\$529,000) for the period under review.

Selling expenses was approximately HK\$1,001,000 (2011: HK\$984,000) representing the overheads on promotional and advertising activities.

Administrative expenses for the period under review were approximately HK\$5,735,000 (2011: HK\$7,351,000), of which staff related costs were approximately HK\$2,215,000 (2011: HK\$3,410,000) mainly attributed to the scaling down in headcount. Other major expenses include rental, which was approximately HK\$992,000 (2011: HK\$846,000); consultancy fees, which were approximately HK\$549,000 (2011: HK\$753,000); and depreciation charges, which were approximately HK\$284,000 (2011: HK\$339,000) during the period under review.

Other expenses for the period were approximately HK\$123,000 (2011: nil) representing the realised loss on investment on financial assets being disposed.

Financial costs during the period were approximately HK\$780,000 (2011: HK\$1,448,000). They primarily consist of accretion of interest on the liability portion of convertible notes.

As a result, the consolidated profit for the period was approximately HK\$874,000 (2011: HK\$2,741,000).

OUTLOOK

The Group is principally engaged in the provision of an internet platform for the facilitation of education program in Chinese medicine and other advisory and training programs. This e-learning business remained our core activity. In order to improve the business model of the Group, we have been exploring into different business projects where we could extend our business strength in operating e-platform, by utilising our computer networking capability.

A letter of intent was entered into launching the “Medical Access Card Integrated Operation and Service Platform” in April 2011. As announced, another three letters of intent were separately entered into on 10 June, 1 September and 12 October, in order to connect our e-platform with an online sale of ticket system for cultural performance and sport games events.

The Board and the management will, as always, dedicate their best efforts and strive for the best interests of the shareholders of the Group and the Company.

Share capital

As at 1 January 2012, 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\$732,170,910 divided into 1,464,341,820 shares of HK\$0.50 each.

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

Date of conversion	Principal amount of the convertible notes HK\$	Conversion price HK\$	Number of shares issued
13 January 2012	<u>3,750,000</u>	1.01	<u>3,712,871</u>

As at 31 March 2012, 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\$734,027,346 divided into 1,468,054,691 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 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 2012, the aggregate outstanding principal amount of the Convertible Notes was HK\$10,162,155 (2011: HK\$25,620,217). 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 in the Company.

In addition to the conversion of the Convertible Notes 2009 as shown above, Convertible Notes 2009 in the principal amount of HK\$1,250,000 were redeemed during the period under review. As at 31 March 2012, the aggregate outstanding principal amount of the Convertible Notes 2009 was approximately HK\$5,162,155. The exercise in full of conversion rights vested with the Company’s outstanding Convertible Notes 2009 would result in the issue and allotment of 5,111,044 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 both 1 January 2012 and 31 March 2012, the aggregate outstanding principal amount of the Convertible Notes 2011 A and Convertible Notes 2011 B were HK\$66,199,934. The exercise in full of the vested conversion rights would result in the issue and allotment of 132,399,868 new shares of the Company.

On 21 July 2011, the Group entered into a subscription agreement with a group of independent subscribers for the issuance of some convertible notes in the aggregate principal amount of HK\$42,000,000, bearing an interest rate of 3% per annum, maturing in 12 months from the date of issue, and convertible into ordinary shares at conversion price of HK\$0.50 per share, subject to adjustments. Subsequently, the Group issued two tranches of convertible notes (“Convertible Notes 2011 C”) on 25 August 2011 for the principal amount of HK\$19,500,000 and (“Convertible Notes 2011 D”) on 14 September 2011 for the principal amount of HK\$22,500,000.

As at both 1 January 2012 and 31 March 2012, the aggregate outstanding principal amount of the Convertible Notes 2011 C and Convertible Notes 2011 D were HK\$22,500,000. The exercise in full of the vested conversion rights would result in the issue and allotment of 45,000,000 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 the People’s Republic of China (“PRC”) was covered by the sales in the 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 31 March 2012, the Group has no foreign currency borrowings and has not used any financial instrument for hedging the foreign exchange risk.

Significant investments

For the three months ended 31 March 2012, 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 31 March 2012.

FUTURE PLAN FOR MATERIAL INVESTMENTS

On 5 December 2011, the Group announced the signing of Cooperation Agreement between BJCHS and Lulutong in relation to the development, technical maintenance and operation of the 北京社區衛生服務網 (Beijing Community Health Services website), a website which will be based on the Medical Access Card Integrated Operation and Service Platform developed by Beijing Hua Tuo Education Technology Company Limited (“Hua Tuo”), a wholly owned subsidiary of the Company.

On 14 February 2012, the Group announced a major transaction on the acquisitions of 100% shareholding interest in Everjoy International Media Corporation and Everjoy Technology Development Corporation, subject to the approvals of the shareholders in EGM and the GEM Listing Committee of the Stock Exchange who will grant the listing of and permission to deal in the Conversion Shares which may be allotted and issued upon exercise of the conversion rights attaching to the convertible notes thereon.

As at the date of this report, the Board is still reviewing the progress of these business plans.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2012, 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 (<i>Director</i>)	Beneficial owner	79,510,480	6,377,306	85,887,786	5.85%
Wang Hui (<i>Chief Executive</i>)	Beneficial owner	–	6,377,306	6,377,306	0.43%
Wei Jianya (<i>Director</i>)	Beneficial owner	–	2,349,534	2,349,534	0.16%

Save as disclosed above, as at 31 March 2012, 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 31 March 2012, 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	207,554,896	14.14%
Atlantis Capital Holdings Limited	Investment manager	88,002,000	5.99%
Liu Yang (note)	Interest of a controlled corporation	88,002,000	5.99%

Notes: According to the disclosure of interests notice filed, Ms. Liu Yang is deemed to be in control of Atlantis Capital Holdings Limited, Ms. Liu Yang is deemed to be interested in the 88,002,000 shares of the Company.

Save as disclosed above, as at 31 March 2012, 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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 31 March 2012.

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 31 March 2012, 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 three months ended 31 March 2012 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.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established on 23 March 2005 with major functions of (i) making recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management of the Group; and (ii) determining the remuneration packages of all Directors and senior management of the Group; and (iii) reviewing and approving the performance-based remuneration. The remuneration committee of the Company is chaired by Mr. Chen Hong. Other members include Mr. Cheung Wai Tak and Mr. Wu Tao. The majority of the members of the remuneration committee are independent non-executive directors.

NOMINATION COMMITTEE

The nomination committee of the Company was established on 23 March 2012. The function of the nomination committee is to identify individual suitably qualified to become director and make recommendation to the Board on the appointment, re-appointment and re-designation of directors. The nomination committee of the Company is chaired by Mr. Chen Hong. Other members include Mr. Cheung Wai Tak and Dr. Huang Chung Hsing. The majority of the members of the nomination committee are independent non-executive directors.

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

Hong Kong, 15 May 2012

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



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