



CHINA E-LEARNING GROUP LIMITED
中國網絡教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08055)

2011 FIRST QUARTERLY
RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2011

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

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement 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 2011, together with the comparative unaudited figures of the corresponding period in 2010, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited)	
		For the three months	
		ended 31 March	
		2011	2010
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	15,220	10,394
Cost of sales		<u>(3,289)</u>	<u>(3,841)</u>
Gross profit		11,931	6,553
Other income	4	593	905
Selling expenses		(984)	(239)
Administrative expenses		<u>(7,351)</u>	<u>(6,817)</u>
Profit from operations		4,189	402
Finance costs	5	<u>(1,448)</u>	<u>(6,724)</u>
Profit/(loss) before tax		2,741	(6,322)
Income tax credit	6	<u>—</u>	<u>—</u>
Profit/(loss) for the period		<u>2,741</u>	<u>(6,322)</u>
Attributable to:			
Owners of the Company		(3,190)	(9,194)
Non-controlling interests		<u>5,931</u>	<u>2,872</u>
		<u>2,741</u>	<u>(6,322)</u>
Loss per share (HK cents)	7		
— Basic		(0.2)	(1.8)
— Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited)	
	For the three months ended 31 March	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit/(loss) for the period	2,741	(6,322)
Other comprehensive expense for the period		
Exchange difference arising on translation of foreign operations	(7)	(20)
Changes in fair value of available-for-sale financial assets	(875)	—
Total comprehensive profit/(loss) for the period	1,859	(6,342)
Attributable to:		
Owners of the Company	(4,072)	(9,214)
Non-controlling interests	5,931	2,872
	1,859	(6,342)

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 2011 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 2010. 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 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

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Gain on redemption of convertible notes	529	875
Interest income	—	18
Sundry income	64	12
	<u>593</u>	<u>905</u>

5. FINANCE COSTS

Finance costs represent interest expenses on convertible notes stated at amortised cost.

6. 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.

7. LOSS PER SHARE

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

	(Unaudited)	
	For the three months	
	ended 31 March	
	2011	2010
	HK\$'000	HK\$'000
Unaudited loss for the period for the purposes of basic and diluted loss per share	<u><u>(3,190)</u></u>	<u><u>(9,194)</u></u>
Weighted average number of ordinary shares for the purpose of basic loss per share	<u><u>1,316,480,007</u></u>	<u><u>511,889,689</u></u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u><u>N/A</u></u>	<u><u>N/A</u></u>

No diluted loss per share has been presented for both periods ended 31 March 2010 and 2011 because the Company's shares options and convertible notes outstanding during the three months ended 31 March 2011 had an anti-dilutive impact.

8. DIVIDEND

The Directors do not recommend payment of any dividend for the three months ended 31 March 2011 (2010: nil).

9. MOVEMENT OF RESERVES (UNAUDITED)

	Share premium <i>HK\$'000</i>	Share-based payment reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Convertible notes equity reserve <i>HK\$'000</i>	Available-for- sale financial assets valuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2010	<u>229,144</u>	<u>43,483</u>	<u>—</u>	<u>4,054</u>	<u>137,964</u>	<u>—</u>	<u>(891,001)</u>	<u>(476,356)</u>
Loss for the period	—	—	—	—	—	—	(9,194)	(9,194)
Other comprehensive loss	—	—	—	(20)	—	—	—	(20)
Total comprehensive loss for the period	—	—	—	(20)	—	—	(9,194)	(9,214)
Issue of shares by conversion of convertible notes	119,127	—	—	—	(59,580)	—	—	59,547
Redemption of convertible notes	—	—	—	—	(690)	—	—	(690)
Subtotal	<u>119,127</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(60,270)</u>	<u>—</u>	<u>—</u>	<u>58,857</u>
At 31 March 2010	<u>348,271</u>	<u>43,483</u>	<u>—</u>	<u>4,034</u>	<u>77,694</u>	<u>—</u>	<u>(900,195)</u>	<u>(426,713)</u>
At 1 January 2011	<u>130,354</u>	<u>43,483</u>	<u>—</u>	<u>6,114</u>	<u>49,688</u>	<u>2,225</u>	<u>(942,899)</u>	<u>(711,035)</u>
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	<u>1,659</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(403)</u>	<u>—</u>	<u>—</u>	<u>1,256</u>
At 31 March 2011	<u>132,013</u>	<u>43,483</u>	<u>—</u>	<u>6,107</u>	<u>49,285</u>	<u>1,350</u>	<u>(946,089)</u>	<u>(713,851)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the first quarter of 2011, 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. The turnover for the first quarter ended 31 March 2011 has increased compared to that for the last corresponding period.

OUTLOOK

For the first quarter ended 31 March 2011, the Group continued exploring existing and new business opportunities. The Group has considered expanding our service network further to potentially serving the medical and hospital services industry. At the same time, the Group has finalised negotiations with some existing creditors in extending some of our loan arrangements for improving the Group’s cash flow position.

FINANCIAL REVIEW

For the three months ended 31 March 2011, the Group recorded a turnover of approximately HK\$15,220,000, representing an increase of approximately 46% compared with approximately HK\$10,394,000 in the last corresponding period.

The Group’s performance has been improved as expenses have been rationalised. Administrative expenses have been reduced by approximately HK\$1,000,000 due to management’s effort of improved cost efficiency.

The interest expenses on the convertible notes decreased from HK\$6,742,000 to HK\$1,472,000, by approximately 78% compared with the last corresponding period, as the outstanding principal amount was reduced from HK\$160,725,000 as of 31 March 2010 to HK\$16,466,000 as of 31 March 2011.

The Group’s net loss attributable to the owners of the Company was approximately HK\$3,190,000, representing a decrease of 65% compared with approximately HK\$9,194,000 in the last corresponding period, mainly due to the reduction in administrative expenses and finance costs.

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 the convertible notes <i>HK\$</i>	Conversion price <i>HK\$</i>	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
	<u>6,904,106</u>		<u>6,835,748</u>

As at 31 March 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\$658,803,000 divided into 1,317,606,187 shares of HK\$0.50 each.

Convertible Notes

Pursuant to the acquisition of 100% interest in New Beida Business StudyNet Group Limited (“New Bedia”) during the year ended 31 December 2008, the Company issued convertible notes (“Convertible Notes 2008”) as partial settlement of the acquisition consideration on 27 February 2008. The aggregate principal of the Convertible Notes 2008 amounted to HK\$720,000,000. The Convertible Notes 2008 are interest free, repayable in 36 months from the date of issue and convertible into ordinary shares at conversion price of HK\$0.63 per share, subject to adjustments.

As at 1 January 2011, the aggregate outstanding principal amount of the Convertible Notes 2008 was HK\$76,200,000 (2010: HK\$284,200,000). The exercise in full of conversion rights vested with the Company’s outstanding Convertible Notes 2008 would have resulted in the issue and allotment of 120,952,380 new shares of the Company.

Upon maturity, the Board announced on 28 February 2011 that the Company reached separate settlement agreements with the holders of Convertible Notes 2008. These settlement agreements enabled the Company to raise funds within a 30 days-period for redeeming in cash, or to elect entering subscription agreements for issuing new Convertible Notes, such that the subscription moneys due would be applied to offset the redemption moneys.

On both 18 April 2011 and 29 April 2011, further announcements were made by the Board that the holders of Convertible Notes had agreed to enter new Convertible Notes subscription agreements, covering 100% of aggregate outstanding principal amount of the Convertible Notes 2008 for HK\$76,200,000.

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 Notes 2009 in the principal amount of HK\$2,250,000 were redeemed during the period under review. As at 31 March 2011, the aggregate outstanding principal amount of the Convertible Notes 2009 was approximately HK\$16,466,000. The exercise in full of conversion rights vested with the Company’s outstanding Convertible Notes 2009 would result in the issue and allotment of 16,303,080 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 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 2011, 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 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 31 March 2011.

FUTURE PLAN FOR MATERIAL INVESTMENTS

On 26 April 2011, the Board announced that the Group entered into a letter of intent via Beijing Hua Tuo Education Technology Company Limited, a wholly owned subsidiary of China E-Learning, with Beijing Lulutong Technology Company Limited ("Lulutong"). Lulutong is a company mainly engaged in the issuance and operation of prepayment cards and relevant comprehensive services and businesses in the medical health sector in China. Currently, Lulutong is working with the healthcare administrative authority in Beijing City to launch the "Medical Access Card Integrated Operation and Service Platform", an integrated operation and protection system, in the hospitals under the jurisdiction of Beijing City (the "Project"). Pursuant to the Letter of Intent, both parties intended to have preliminary negotiation on their full cooperation in relation to the "Medical Access Card Integrated Operation and Service Platform" and to promote their businesses and mutual economic benefits.

As at the date of this announcement, the Board is still reviewing the progress of this business plan while no formal agreement has been reached.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 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 (<i>Director</i>)	Beneficial owner	79,510,480	6,377,306	85,887,786	6.52%
Wang Hui (<i>Chief Executive</i>)	Beneficial owner	—	6,377,306	6,377,306	0.48%
Wei Jianya (<i>Director</i>)	Beneficial owner	—	2,349,534	2,349,534	0.18%

Save as disclosed above, as at 31 March 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 31 March 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	11.20%
Atlantis Investment Management (Hong Kong) Limited	Investment manager	80,058,000	6.08%
Liu Yang	Interest of a controlled corporation	80,058,000	6.08%

Save as disclosed above, as at 31 March 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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the period under review, neither 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 three months ended 31 March 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 31 March 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 three months ended 31 March 2011, and recommended the Board to adopt the first quarterly report for 2011.

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

Hong Kong, 13 May 2011

As at the date of this announcement, 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.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page and the website of the Company at www.chinae-learning.com for at least 7 days from the date of its publication.