



CHINA E-INFORMATION TECHNOLOGY GROUP LIMITED
中國網絡信息科技集團有限公司

(Formerly known as China E-Learning Group Limited 前稱中國網絡教育集團有限公司)

(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: 08055)

2018

First Quarterly Report



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

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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 (the “Directors”) of China E-Information Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange 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 the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

RESULTS

The board (the "Board") of directors ("Directors") of China E-Information Technology 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 2018, together with the comparative unaudited figures of the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | (Unaudited) Three month ended 31 March | |
|--|------|--|------------------|
| | Note | 2018 HK\$'000 | 2017 HK\$'000 |
| Revenue | 3 | 29,715 | 16,324 |
| Cost of goods sold and services provided | | (11,137) | (4,587) |
| Gross profit | | 18,578 | 11,737 |
| Other income | 4 | 41 | 223 |
| Other expenses | 5 | (72) | – |
| Administrative expenses | | (19,294) | (12,521) |
| Loss from operations | | (747) | (561) |
| Finance costs, net | 6 | (2,231) | (154) |
| Share of result of investments in associate | | 338 | – |
| Loss before tax | | (2,640) | (715) |
| Income tax | 7 | – | – |
| Loss for the period | | (2,640) | (715) |
| Attributable to: | | | |
| Owners of the Company | | (10,005) | (5,649) |
| Non-controlling interests | | 7,365 | 4,934 |
| | | (2,640) | (715) |
| Loss per share attributable to owners of the Company (HK cents) | 8 | | |
| – Basic | | (0.3) | (0.2) |
| – Diluted | | N/A | N/A |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | (Unaudited) | |
|---|--------------------|----------|
| | Three months ended | |
| | 31 March | |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Loss for the period | (2,640) | (715) |
| Other comprehensive income/(expenses) for the period | | |
| Exchange differences arising on translation of foreign operations | 4,603 | (182) |
| Total comprehensive income/(expenses) for the period | 1,963 | (897) |
| <hr/> | | |
| Attributable to: | | |
| Owners of the Company | (5,402) | (5,831) |
| Non-controlling interests | 7,365 | 4,934 |
| | <hr/> | <hr/> |
| | 1,963 | (897) |
| | <hr/> | |

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 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.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the three months ended 31 March 2018 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 2017. 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 2017. 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. REVENUE

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 | |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Interest income | 41 | 24 |
| Sundry income | - | 7 |
| Net realised gain on financial assets at fair value through profit or loss | - | 192 |
| | 41 | 223 |

5. **OTHER EXPENSES**

| | (Unaudited) | |
|--|---------------------------|----------|
| | Three months ended | |
| | 31 March | |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Net unrealised loss on financial assets of fair value through profit or loss | 72 | – |
| | 72 | – |

6. **FINANCE COSTS**

Finance costs represent interest expenses on financial liabilities measured at amortised cost.

7. **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.

8. **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 | |
| | 2018 | 2017 |
| | HK\$'000 | HK\$'000 |
| Unaudited loss for the period for the purposes of basic and diluted loss per share | (10,005) | (5,649) |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 3,646,579,256 | 3,020,884,408 |
| 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 2017 and 2018 because the Company's outstanding shares options and convertible notes during the three months ended 31 March 2018 had an anti-dilutive impact.

9. DIVIDEND

The Directors do not recommend payment of any dividend for the three months ended 31 March 2018 (2017: nil).

10. 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 | PRC staff award fund reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|---------------------------|---|--|--|--|--------------------------------|-------------------|
| At 1 January 2017 | 287,747 | 57,070 | 8,652 | 1,174 | 8,958 | (546,820) | (183,219) |
| Loss for the period | - | - | - | - | - | (5,649) | (5,649) |
| Other comprehensive expenses | - | - | (182) | - | - | - | (182) |
| Total comprehensive expenses for the period | - | - | (182) | - | - | (5,649) | (5,831) |
| At 31 March 2017 | 287,747 | 57,070 | 8,470 | 1,174 | 8,958 | (552,469) | (189,050) |
| At 1 January 2018 | 332,783 | 78,953 | 9,194 | 29,815 | 11,730 | (622,189) | (159,714) |
| Loss for the period | - | - | - | - | - | (10,005) | (10,005) |
| Other comprehensive expenses | - | - | 4,603 | - | - | - | 4,603 |
| Total comprehensive expenses for the period | - | - | 4,603 | - | - | (10,005) | (5,402) |
| Issue of shares by placing | 32,500 | - | - | - | - | - | 32,500 |
| Issue of shares by exercised of share option | 17,205 | (6,216) | - | - | - | - | 10,989 |
| At 31 March 2018 | 382,488 | 72,737 | 13,797 | 29,815 | 11,730 | (632,194) | (121,627) |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group's revenue for the three months' period was 82% more than the same period last year. The medical education core business remains stable and the management expects the business continue to improve.

FINANCIAL REVIEW

For the three months ended 31 March 2018, the Group recorded revenue of approximately HK\$29,715,000 (2017: HK\$16,324,000) representing tuition fee revenue and sales of educational products. Gross profit was approximately HK\$18,578,000 (2017: HK\$11,737,000), representing a gross profit margin of 62% (2017: 72%) for the period under review.

During the period, cost of goods sold and services provided was approximately HK\$11,137,000 (2017: HK\$4,587,000) representing the direct wages and overheads incurred in the distance learning courses.

Other income for the period under review amounted to HK\$41,000 (2017: HK\$223,000), representing an interest income of HK\$41,000 (2017: HK\$24,000). In 2017, a sundry income of HK\$7,000 and a gain on sale of financial assets of HK\$192,000.

Other expenses for the period under review is 72,000 representing net unrealised loss on financial assets of fair value through profit or loss of approximately HK\$72,000 (2017: Nil).

Administrative expenses for the period under review were approximately HK\$19,294,000 representing a increase of approximately 54% from approximately HK\$12,521,000 for the corresponding period of last year.

Finance costs during the period were approximately HK\$2,231,000 (2017: HK\$154,000), and the consolidated loss for the period was approximately HK\$2,640,000 (2017: HK\$715,000).

OUTLOOK

The Group's existing e-learning business will remain the core business and main cash generator in the near future. This business is expected to grow in a rather stable manner.

As usual, the Group will implement certain cost-effective measures to streamline the operation so as to enhance the profitability and value of this e-learning business. The Company will continue to look for opportunities for our existing business, particularly in developing both vertically and horizontally within the Group's existing medical education platform, expanding further into our service network, increase the shareholders' value and reduce business risk.

On 26 January 2018, a Placing Agreement was entered into between the Company and the Placing Agent, pursuant to which the Company has appointed the Placing Agent to procure altogether not less than six Placings, on a best effort basis, for subscribing up to an aggregate of 330,000,000 Placing Shares at HK\$0.35 per Placing Share.

On 9 February 2018, the Company and the Placing Agent entered into a supplemental agreement (the "Supplemental Agreement") for amending the terms of the Placing Agreement, pursuant to which the deadline for fulfilment of the conditions to completion of the Placing (the "Long Stop Date") has been postponed from 9 February 2018 to 23 February 2018.

For detailed information regarding the Placing Agreement and Supplemental Agreement, please refer to the announcement of the Company dated 26 January 2018 and 9 February 2018.

On 27 February 2018, 130,000,000 Placing Shares have been successfully placed to not less than six Placees at the Placing Price of HK\$0.35 per Placing Share pursuant to the terms and conditions of the Placing Agreement (as amended by the Supplemental Agreement).

For detailed information regarding the completion of the Placing, please refer to the announcement of the Company dated 27 January 2018.

In addition, the Company will continue to look for other attractive investments in the PRC and locally in an attempt to diversify into different business areas to reduce the reliance upon existing e-learning business and strengthen the positive cash flow and earnings for the Group in the long run.

Share capital

As at both 1 January 2017 and 31 March 2017, the authorised share capital of the Company was HK\$5,000,000,000 divided into 50,000,000,000 shares of HK\$0.10 each and the issued share capital of the Company was HK\$375,129,702 divided into 3,751,297,033 shares of HK\$0.10 each.

Convertible Notes

Convertible Notes 2020

On 11 October 2016 and 24 October 2016, the Company entered into the Sale and Purchase Agreement and Supplemental Agreement with the Vendor in relation to the acquisition of 49% equity interest in Beijing Youli Lianxu Technology Company Limited.

Completion of the issue of the Convertible Notes 2020 (CN2020) in the aggregate principal amount of HK\$91,581,000 have been issued, of which HK\$54,215,952 are issued to the company nominated by Mr. Wang Peng and HK\$37,365,048 are issued to the company nominated by Mr. Ma Liejun took place on 25 April 2017.

As at 31 March 2018, the aggregate outstanding principal amount of CN2020 was HK\$54,948,600. The exercise in full of the vested conversion rights would result in the issue and allotment of 230,876,471 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 2018, the Group has no foreign currency borrowings and has not used any financial instrument for hedging the foreign exchange risk.

Significant investments

There were no significant investments during the period ended 31 March 2018.

Charges on the Group's assets

There were no material charges on the Group's assets as at 31 March 2018.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31 March 2018 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 positions 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 Share | Shares Options | Total | |
| Yuan Wei (<i>Executive Director</i>) | Beneficial owner | – | 33,000,000 | 33,000,000 | 0.88% |
| Zhang Jianxin (<i>Executive Director</i>) | Beneficial owner | – | 10,000,000 | 10,000,000 | 0.27% |
| Zheng Zhijing (<i>Executive Director</i>) | Beneficial owner | – | 10,000,000 | 10,000,000 | 0.27% |
| Wong Hiu Pui (<i>Executive Director</i>) | Beneficial owner | 120,000 | – | 120,000 | 0.003% |
| Lin Yan (<i>Executive Director</i>) | Beneficial owner | 126,000,000 | – | 126,000,000 | 3.36% |
| Li Qunsheng (<i>Independent Non-executive Director</i>) | Beneficial owner | – | 3,000,000 | 3,000,000 | 0.08% |
| Lu Xiaowei (<i>Independent Non-executive Director</i>) | Beneficial owner | 1,000,000 | – | 1,000,000 | 0.03% |
| Wang Xinsheng (<i>Independent Non-executive Director</i>) | Beneficial owner | 3,000,000 | – | 3,000,000 | 0.08% |
| Wang Hui (<i>Chief Executive Officer</i>) | Beneficial owner | 1,000,000 | 38,377,306 | 39,377,306 | 1.05% |

Save as disclosed above, as at 31 March 2018, none of the other Directors or chief executive of the Company had any interest or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 March 2018, 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 |
|---|---|--|------------------------------------|
| Atlantis Capital Holdings Limited (note 1) | Investment manager | 286,256,000 | 7.63% |
| Liu Yang (note 2) | Interest of a controlled corporation | 286,256,000 | 7.63% |
| Atlantis Investment Management (Hong Kong) Limited (note 1) | Investment manager | 286,256,000 | 7.63% |
| China Shipbuilding Industry Corporation (note 3) | Interest of a controlled corporation | 513,256,000 | 13.68% |
| China Shipbuilding Capital Limited (note 3) | Beneficial owner and interest of a controlled corporation | 513,256,000 | 13.68% |

Notes:

1. According to the disclosure of interests notices filed by each of Ms. Liu Yang and Atlantis Capital Holdings Limited, Atlantis Investment Management (Hong Kong) Limited ("Atlantis (Hong Kong)") and Atlantis Investment Management (Ireland) Limited ("Atlantis (Ireland)") were disclosed as having interest in 286,256,000 shares and 126,256,000 shares of the Company respectively. Atlantis (Hong Kong) and Atlantis (Ireland) are indirect wholly-owned and direct wholly-owned by Ms. Liu Yang and Atlantis Capital Holdings Limited respectively. Therefore, Ms. Liu Yang and Atlantis Capital Holdings Limited are deemed to be interested in the shares held by Atlantis (Hong Kong) and Atlantis (Ireland).
2. According to the disclosure of interests notices filed by Riverwood Asset Management (Cayman) Ltd, Riverwood Asset Management (Cayman) Ltd was disclosed as having interest in 160,000,000 shares of the Company and was wholly owned by Ms. Liu Yang. Therefore, Ms. Liu Yang is deemed to be interested in the shares held by Riverwood Asset Management (Cayman) Ltd.

3. China Shipbuilding Capital Limited was a wholly-owned subsidiary of China Shipbuilding Industry Corporation. China Shipbuilding Capital Limited was the beneficial owner of 481,392,000 shares of the Company and also held 60% shareholding in CSIC Investment One Limited, a company which was the beneficial owner of 31,864,000 shares of the Company.

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 2018.

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 Director 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 2018, the committee comprised three independent non-executive Directors, namely, Mr. Li Qunsheng, Mr. Tang Jiuda and Ms. Lu Xiaowei.

The Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2018 have been reviewed by the audit committee, which was 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. Yuan Wei. Other members include Mr. Li Qunsheng and Mr. Tang Jiuda. 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. Yuan Wei. Other members include Mr. Li Qunsheng and Ms. Lu Xiaowei. The majority of the members of the nomination committee are independent non-executive directors.

By order of the Board
China E-Information Technology Group Limited
Yuan Wei
Executive Director

Hong Kong, 15 May 2018

As at the date of this report, the Board comprises five executive Directors, namely Mr. Yuan Wei, Ms. Zhang Jianxin, Mr. Zheng Zhijing, Ms. Lin Yan and Ms. Wong Hiu Pui; and three independent non-executive Directors, namely Mr. Li Qunsheng, Mr. Tang Jiuda and Ms. Lu Xiaowei.