



CHINA E-INFORMATION TECHNOLOGY GROUP LIMITED

中國網絡信息科技集團有限公司

(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)

2019

First Quarterly Report



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

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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 of Hong Kong Limited 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 present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2019, together with the comparative unaudited figures of the corresponding period in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		(Unaudited)	
		Three months ended	
		31 March	
		2019	2018
	Note	HK\$'000	HK\$'000
Revenue	3	22,957	29,715
Cost of goods sold and services provided		(9,183)	(11,137)
Gross profit		13,774	18,578
Other income	4	598	41
Other expenses	5	(442)	(72)
Administrative expenses		(13,178)	(19,294)
Profit/(loss) from operations		752	(747)
Finance costs, net	6	(3,222)	(2,231)
Share of result of investment in an associate		1,126	338
Loss before tax		(1,344)	(2,640)
Income tax	7	–	–
Loss for the period		(1,344)	(2,640)
Attributable to:			
Owners of the Company		(7,338)	(10,005)
Non-controlling interests		5,994	7,365
		(1,344)	(2,640)
Loss per share attributable to owners of the Company (HK cents)	8		
– Basic		(0.20)	(0.27)
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	(Unaudited)	
	Three months ended	
	31 March	
	2019	2018
	HK\$'000	HK\$'000
Loss for the period	(1,344)	(2,640)
Other comprehensive income		
Exchange differences arising on translation of foreign operations	103	4,603
Total comprehensive (expenses)/income for the period	(1,241)	1,963
Attributable to:		
Owners of the Company	(7,235)	(5,402)
Non-controlling interests	5,994	7,365
	(1,241)	1,963

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 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 AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements for the three months ended 31 March 2019 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 2018. 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 2019. Except to the adoption of HKFRS 16 Leases as stated in the following, 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.

Effect of HKFRS 16, Leases

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease rental expenses were recognised in the consolidated income statement over the lease period on a straight-line basis.

HKFRS 16 introduces an on-balance sheet lease accounting model for leases. HKFRS 16 requires a lessee to recognise almost all leases on the statement of financial position which will reflect their "right-of-use" for a period of time and their associated liability for payments. There are recognition exemptions for short-term leases and leases of low-value items.

On adoption of HKFRS 16, the Group recognised the lease liabilities in relation to leases which had previously been classified as operating leases if they meet certain criteria set out in HKFRS 16. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to the consolidated income statement in the period in which it is incurred using effective interest method.

The Group has transitioned to HKFRS 16 in accordance with the modified retrospective approach and, therefore, the information presented for 2018 has not been restated. After reviewing the leases, there is no change on the opening balance of retained earnings and equity at the date of initial application of HKFRS 16.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position. Depreciation on right-of-use assets and interest of lease liabilities are recognised in the profit or loss under HKFRS 16.

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	
	2019	2018
	HK\$'000	HK\$'000
Interest income	598	41

5. OTHER EXPENSES

	(Unaudited)	
	Three months ended	
	31 March	
	2019	2018
	HK\$'000	HK\$'000
Net unrealised loss on financial assets at fair value through profit or loss	414	72
Net exchange loss	28	–
	442	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	
	2019	2018
	HK\$'000	HK\$'000
Unaudited loss for the period for the purposes of basic and diluted loss per share	(7,338)	(10,005)

	(Unaudited) Three months ended 31 March	
	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	3,751,297,033	3,646,579,256
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 2019 and 2018 because the Company's outstanding shares options and convertible notes during the three months ended 31 March 2019 and 2018 have an anti-dilutive impact.

9. DIVIDEND

The Directors do not recommend payment of any dividend for the three months ended 31 March 2019 (2018: 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 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 income	-	-	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	17,204	(6,216)	-	-	-	-	10,988
At 31 March 2018	382,487	72,737	13,797	29,815	11,730	(632,194)	(121,628)
At 1 January 2019	382,487	69,818	3,762	29,815	11,730	(710,112)	(212,500)
Loss for the period	-	-	-	-	-	(7,338)	(7,338)
Other comprehensive income	-	-	103	-	-	-	103
Total comprehensive expenses for the period	-	-	103	-	-	(7,338)	(7,235)
At 31 March 2019	382,487	69,818	3,865	29,815	11,730	(717,450)	(219,735)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group's revenue for the three months' period was 22.7% less than the same period last year. The medical education remains the core business of the Group.

FINANCIAL REVIEW

For the three months ended 31 March 2019, the Group recorded revenue of approximately HK\$22,957,000 (2018: HK\$29,715,000) representing tuition fee revenue and sales of educational products. Gross profit was approximately HK\$13,774,000 (2018: HK\$18,578,000), representing a gross profit margin of 60% (2018: 62%) for the period under review.

During the period, cost of goods sold and services provided was approximately HK\$9,183,000 (2018: HK\$11,137,000) representing the direct wages and overheads incurred in the distance learning courses.

Other income for the period under review amounted to approximately HK\$598,000 (2018: HK\$41,000), representing an interest income of approximately HK\$598,000 (2018: HK\$41,000).

Other expenses for the period under review amounted to approximately HK\$442,000 (2018: HK\$72,000) representing net unrealised loss on financial assets at fair value through profit or loss of approximately HK\$414,000 (2018: HK\$72,000) and net exchange loss of approximately HK\$28,000 (2018: HK\$nil).

Administrative expenses for the period under review were approximately HK\$13,178,000 representing a decrease of approximately 31.7% from approximately HK\$19,294,000 for the corresponding period of last year.

During the period, the share of results of an associate of approximately HK\$1,126,000 (2018: HK\$338,000) is contributed by an associate, Beijing Youli Lianxu Technology Co., Ltd., ("Beijing Youli") which was acquired in April 2017.

Finance costs during the period were approximately HK\$3,222,000 (2018: HK\$2,231,000), and the consolidated loss for the period was approximately HK\$1,344,000 (2018: HK\$2,640,000).

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.

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 2019 and 31 March 2019, 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\$375,129,703 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 (“Beijing Youli”).

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.

In 2018, Beijing Youli met the 2017 Profit Target (being the net profit after tax of Beijing Youli for the period from 1 April 2017 to 31 March 2018 in the amount of HK\$12,600,000). For detailed information regarding the Profit Target, please refer to the announcement of the Company dated 11 October 2016.

As at 31 March 2019, 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.

Articles of Association

There was no change to the Articles of Association to the Company during the period ended 31 March 2019.

On 21 January 2019, the special resolution was not passed at the Extraordinary General Meeting (“EGM”) in relation to adopt the Company’s new memorandum and articles of association in substitution for and to the exclusion of the existing memorandum and articles of association of the Company. For detailed information regarding the special resolution, please refer to the announcement of the Company dated 28 December 2018 and 21 January 2019.

On 25 March 2019, the special resolution was not passed at the EGM in relation to adopt the Company’s new memorandum and articles of association in substitution for and to the exclusion of the existing memorandum and articles of association of the Company. For detailed information regarding special resolution, please refer to the announcement of the Company dated 20 February 2019 and 25 March 2019.

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 2019, 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 2019.

Charges on the Group's assets

There were no material charges on the Group's assets as at 31 March 2019.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 31 March 2019, 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 and Chief Executive Officer)</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%
Wong Hiu Pui <i>(Executive Director)</i>	Beneficial owner	120,000	-	120,000	0.003%
Zheng Zhijing <i>(Executive Director)</i>	Beneficial owner	-	10,000,000	10,000,000	0.27%
Lin Yan <i>(Executive Director)</i>	Beneficial owner	126,000,000	-	126,000,000	3.36%
Yang Qingchun <i>(Independent Non-executive Director)</i>	Beneficial owner	536,000	-	536,000	0.01%
Lu Xiaowei <i>(Independent Non-executive Director)</i>	Beneficial owner	1,000,000	-	1,000,000	0.03%

Save as disclosed above, as at 31 March 2019, 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 2019, 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%
Atlantis Investment Management (Ireland) Limited (note 1)	Investment manager	126,256,000	3.37%
Riverwood Asset Management (Cayman) Ltd. (note 2)	Investment manager	160,000,000	4.27%
China Shipbuilding Industry Corporation (note 3)	Interest of a controlled corporation	524,952,000	13.99%
China Shipbuilding Capital Limited (note 3)	Beneficial owner and interest of a controlled corporation	524,952,000	13.99%
Summit Blue Limited (note 4)	Beneficial owner	384,794,117	10.26%
Wang Peng (note 4)	Interest of a controlled corporation	384,794,117	10.26%

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 493,088,000 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.
4. According to the disclosure of interests notices filed by Summit Blue Limited and Mr. Wang Peng, Summit Blue Limited held 384,794,117 shares of the Company and Mr. Wang Peng held 70% shareholding in Summit Blue Limited. Therefore, Mr. Wang Peng is deemed to be interested in the shares held by Summit Blue Limited under 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 2019.

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 2019, the committee comprised three independent non-executive Directors, namely, Ms. Yang Qingchun, Mr. Tang Jiuda and Ms. Lu Xiaowei.

The Group's unaudited condensed consolidated financial statements for the three months ended 31 March 2019 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 Ms. Yang Qingchun 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 Ms. Yang Qingchun 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, 10 May 2019

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 Ms. Yang Qingchun, Mr. Tang Jiuda and Ms. Lu Xiaowei.