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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)

PROPOSED ISSUE OF CONVERTIBLE NOTES

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On 10 December 2013 (after trading hours), the Company entered into the First Subscription Agreement with Subscriber Lau pursuant to which the Company has agreed to issue, and Subscriber Lau has agreed to subscribe for, the Convertible Notes 1 with an aggregate principal amount of HK\$10,000,000, which may be converted into 100,000,000 Conversion Shares at the Conversion Price of HK\$0.10 per Conversion Share (subject to adjustment).

On the same day, the Company also entered into the Second Subscription Agreement with Subscriber Yan pursuant to which the Company has agreed to issue, and Subscriber Yan has agreed to subscribe for, the Convertible Notes 2 with an aggregate principal amount of HK\$4,234,400, which may be converted into 42,344,000 Conversion Shares at the Conversion Price of HK\$0.10 per Conversion Share (subject to adjustment).

Upon full conversion of the Convertible Notes at the Conversion Price, the Convertible Notes will be convertible into a maximum of 142,344,000 Shares, representing approximately 9.67% of the existing issued share capital of the Company and approximately 8.82% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon full conversion of the Convertible Notes.

As the issue of the Convertible Notes is subject to the fulfillment of certain Conditions Precedent and may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.

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Details of the Subscription Agreements are set out below.

FIRST SUBSCRIPTION AGREEMENT

Date:

10 December 2013

Parties:

- (1) The Company, being the issuer of the Convertible Notes 1; and
- (2) Subscriber Lau, being the subscriber of the Convertible Notes 1.

Subscription 1

Pursuant to the First Subscription Agreement, the Company has agreed to issue, and Subscriber Lau has agreed to subscribe for the Convertible Notes 1 with an aggregate principal amount of HK\$10,000,000 for a total consideration of HK\$10,000,000, all of which shall be setoff in full against the equivalent amount of indebtedness owing by the Company to Subscriber Lau at Completion.

SECOND SUBSCRIPTION AGREEMENT

Date:

10 December 2013

Parties:

- (1) The Company, being the issuer of the Convertible Notes 2; and
- (2) Subscriber Yan, being the subscriber of the Convertible Notes 2.

Subscription 2

Pursuant to the Second Subscription Agreement, the Company has agreed to issue, and Subscriber Yan has agreed to subscribe for the Convertible Notes 2 with an aggregate principal amount of HK\$4,234,400 for a total consideration of HK\$4,234,400, all of which shall be setoff in full against the equivalent amount of indebtedness owing by the Company to Subscriber Yan at Completion.

TERMS AND CONDITIONS OF CONVERTIBLE NOTES

The terms and conditions of the Convertible Notes have been negotiated on an arm's length basis and the principal terms and conditions of which are summarized below:

Issuer:	The Company
Aggregate principal Amount:	For the Convertible Notes 1, the principal amount of HK\$10,000,000 For the Convertible Notes 2, the principal amount of HK\$4,234,400
Conversion Price:	<p>The Conversion Price is HK\$0.10 per Share, which is subject to adjustments for, among other matters, consolidation, reduction or subdivision of Shares, capitalization of profits or reserves, rights issue, or issue of convertible securities, warrants or options carrying the right to subscribe for Shares.</p> <p>The Conversion Price represents:</p> <ul style="list-style-type: none">(i) a premium of about 5.26% to the closing price of HK\$0.095 per Share as quoted on the Stock Exchange on the Last Trading Date;(ii) a premium of about 1.01% to the average closing price of HK\$0.099 per Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Date; and(iii) a discount of about 2.72% to the average closing price of HK\$0.103 per Share as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Date. <p>The Conversion Price has been determined after arm's length negotiations between the Company and the Subscribers with reference to the then prevailing market price of the Shares.</p>
Interest rate	The Convertible Notes shall carry interest at the rate of 1% per annum payable in arrears yearly on the 31st day of December each year or, if earlier, upon full conversion of the Convertible Notes.
Transferability of Convertible Notes	<p>The Convertible Notes may be transferred or assigned in whole or in part by the Noteholders to any party other than a connected person of the Company or an associate of such connected person.</p> <p>The necessary approvals and consents from the independent Shareholders as may be required under the GEM Listing Rules must be obtained in order for the Convertible Notes to be transferred to a connected person of the Company or an associate of such connected person.</p>

Maturity date (the “ Maturity Date ”)	The date falling on the corresponding calendar day in the twelfth (12th) calendar month after the date of issue of the Convertible Notes. Unless previously converted in accordance with the conditions pursuant to which the Convertible Notes are to be issued, the Company may at its sole and absolute discretion redeem the Convertible Notes (or any part thereof) at its outstanding principal amount together with interest at any time and from time to time on or before the Maturity Date.
Conversion rights	<p>The Subscribers may convert the whole or part of the principal amount of the Convertible Notes into the Conversion Shares at the Conversion Price for the period commencing from the date of issue of the Convertible Notes up to the Maturity Date.</p> <p>The Noteholders shall have the right to convert the Convertible Notes, in whole or in part, at any time at the Conversion Price set out above, provided that no conversion of the Convertible Notes shall be made if immediately upon such conversion, the Company will fail to comply with the public float requirement (the “Public Float Requirement”) of the Shares under Rule 11.23 of the GEM Listing Rules.</p> <p>Furthermore, the Noteholders shall exercise the right of conversion only to the extent that any conversion of the Convertible Notes does not trigger off a mandatory offer obligation under Rule 26.1 of the Takeovers Code on the part of the Noteholders.</p>
Conversion Shares	<p>For the First Subscription Agreement, 100,000,000 Conversion Shares will be issuable by the Company upon exercise of the conversion rights attaching to the Convertible Notes in full at the Conversion Price of HK\$0.10.</p> <p>The 100,000,000 Conversion Shares represent about 6.79% of the existing issued share capital of the Company as at the date of this announcement.</p> <p>Based on the assumptions set out in the table under the paragraph headed “Changes in Shareholding Structure of the Company” below, the 100,000,000 Conversion Shares represent about 6.19% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.</p> <p>For the Second Subscription Agreement, 42,344,000 Conversion Shares will be issuable by the Company upon exercise of the conversion rights attaching to the Convertible Notes in full at the Conversion Price of HK\$0.10.</p> <p>The 42,344,000 Conversion Shares represent about 2.88% of the existing issued share capital of the Company as at the date of this announcement.</p> <p>Based on the assumptions set out in the table under the paragraph headed “Changes in Shareholding Structure of the Company” below, the 42,344,000 Conversion Shares represent about 2.62% of the issued share capital of the Company as enlarged by the allotment and issue of the Conversion Shares.</p>

Early redemption	The Convertible Notes are redeemable by the Company before the Maturity Date of the Convertible Notes.
Status of the Convertible Notes	The Convertible Notes constitute a direct, general, unconditional and unsecured obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes) equally with all other present and/or future unsecured and unsubordinated obligations of the Company.
Ranking of the Conversion Shares	The Conversion Shares, when allotted and issued, will rank pari passu in all Conversion Shares respects with all existing Shares in issue at the date of the conversion notice.
Voting	The Convertible Notes do not confer any voting rights at any meetings of the Company.
Listing	No application will be made by the Company for the listing of the Convertible Notes. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Mandate to issue the Conversion Shares

The issue of the Conversion Shares will be made pursuant to the General Mandate granted to the Board by the Shareholders at the annual general meeting of the Company held on 15 May 2013 to allot and issue up to 294,375,780 Shares, being 20% of the total nominal amount of the issued share capital of the Company as at the date of the passing of the resolution approving such grant.

The General Mandate has been previously utilised prior to the date of this announcement. As disclosed in the Company's announcement dated 29 November 2013, the Company shall issue 110,000,000 Shares pursuant to the General Mandate upon exercise of the conversion rights attaching to both CN2014-1 and CN2014-2 in full. As such, the Company, as at the date hereof, may allot and issue up to the remaining 184,375,780 Shares under the General Mandate. The General Mandate will therefore be sufficient, and no further Shareholders' approval is required, for the allotment and issue of the Conversion Shares.

Listing of the Conversion Shares

No application will be made by the Company for the listing of the Convertible Notes. An application will be made by the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Conversion Shares.

Conditions Precedent

Completions of both the Subscription 1 and Subscription 2 are subject to:

- (i) the GEM Listing Committee granting the listing of, and the permission to deal in, the Conversion Shares; and
- (ii) the warranties given by the Company under the Subscription Agreements being true, accurate and correct as at the date of Completion.

In the event that the above conditions are not fulfilled on or before 10 April 2014 (or such other date as the parties to the Subscription Agreements may agree in writing), the Subscription Agreements shall terminate and cease to have any legal effect.

Completion

Completion shall take place on the Completion Date. Upon Completion, the Company will issue the Convertible Notes to Subscriber Lau and Subscriber Yan in an aggregate principal amount of HK\$10,000,000 and HK\$4,234,400 respectively and all of the subscription amount shall be setoff in full against the equivalent amount of indebtedness owing by the Company to each Subscriber at Completion.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after the allotment and issue of the Conversion Shares upon the exercise of conversion rights attaching to the Convertible Notes in full; and (iii) immediately after the allotment and issue of the Conversion Shares and the relevant Shares upon the exercise of conversion rights attaching to the Convertible Notes and the Existing Convertible Notes in full respectively, and assuming that there being no other change to the share capital and shareholding structure of the Company from the date of this announcement save for the allotment and issue of the Conversion Shares and the relevant Shares during the relevant period.

	As at the date of this announcement		Immediately after the allotment and issue of the Conversion Shares upon exercise of the conversion rights attaching to the Convertible Notes in full (Note 1)		Immediately after the allotment and issue of the Conversion Shares and the relevant Shares upon exercise of the conversion rights attaching to the Convertible Notes and the Existing Convertible Notes in full respectively (Note 1)	
	Number of Shares	(Approximately) %	Number of Shares	(Approximately) %	Number of Shares	(Approximately) %
Substantial Shareholder						
Yang Dong Jun	207,554,896	14.10	207,554,896	12.86	207,554,896	10.67
Public Shareholders						
Subscriber Lau	–	–	100,000,000	6.19	100,000,000	5.14
Subscriber Yan	–	–	42,344,000	2.62	42,344,000	2.18
Holders of CN 2011A	–	–	–	–	59,999,868	3.08
Holders of CN 2011D	–	–	–	–	25,600,000	1.32
Holder of ETCN	–	–	–	–	19,223,812	0.99
Holder of EICN	200,000	0.014	200,000	0.012	116,671,912	6.00
Holder of CN 2014-2	4,050,000	0.28	4,050,000	0.25	54,050,000	2.78
Holder of CN 2014-1	–	–	–	–	60,000,000	3.08
Other public shareholders	1,180,249,936	80.19	1,180,249,936	73.12	1,180,249,936	60.67
Connected persons of the Company						
Chen Hong (Director) (Note 2)	79,510,480	5.40	79,510,480	4.93	79,510,480	4.09
Li Xiangjun (Director) (Note 2)	313,590	0.021	313,590	0.019	313,590	0.016
Total	<u>1,471,878,902</u>	<u>100</u>	<u>1,614,222,902</u>	<u>100</u>	<u>1,945,518,494</u>	<u>100</u>

Notes:

- Assuming (i) the Conversion Price is not adjusted as a result of any dilutive event and (ii) there is no redemption of the Convertible Notes pursuant to the terms and conditions of the Convertible Notes.
- Chen Hong and Li Xiangjun are Directors.

REASONS FOR AND BENEFITS OF ISSUE OF THE CONVERTIBLE NOTES

Subscription 1 and Subscription 2 are effected to setoff in full against the equivalent amount of indebtedness owing by the Company to the Subscribers at Completion. The Directors have considered various means available to raise funds in the capital market or obtaining loans and other general banking facilities from the banks and financial institutions to repay the indebtedness but are of the view that the issue of the Convertible Notes is an appropriate means, since (i) it will not have an immediate dilution effect on the shareholding of the existing Shareholders; (ii) the interest rate payable on the Convertible Notes is fair and reasonable as compared with the prevailing interest rates generally offered by banks and financial institutions for similar loan facilities; (iii) if the conversion rights attaching to the Convertible Notes are exercised, the financial position of the Group will be strengthened with the conversion of debt into further equity capital; and (iv) it will provide flexibility to the Company to manage its liquidity and the pressure from the cash flows and the repayment of the short-term debts of the Group can be alleviated.

The Directors (including the independent non-executive Directors) therefore are of the view that the terms of the Subscription Agreements and the Convertible Notes are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE COMPANY AND THE SUBSCRIBERS

The Group is engaged principally in provision of occupational education, industry certification course, skills training and education consultation.

As at the date of this announcement, the Subscribers are merchants. To the best of the information, knowledge and belief of the Directors having made all reasonable enquiries:

- (i) each of the Subscribers is a third party independent of the Company and its connected persons;
- (ii) none of the Subscribers are associates of the connected persons of the Company; and
- (iii) none of the Subscribers have any shareholding in the Company before the Subscriptions.

FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

The Group has not conducted any equity fund raising activities in the past 12 months from the date of this announcement.

As the Subscription 1 and Subscription 2 are subject to the fulfillment of certain Conditions Precedent and may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Board”	the board of Directors
“business day”	any day, other than a Saturday or Sunday, on which banks in Hong Kong generally provide their banking services

“CN2011A”	the convertible notes with an aggregate outstanding principal amount of HK\$29,999,934 conferring rights to convert to a total of 59,999,868 Shares on the basis of a conversion price of HK\$0.50 per Share (subject to adjustment)
“CN2011D”	the convertible notes with an aggregate outstanding principal amount of HK\$12,800,000 conferring rights to convert to a total of 25,600,000 Shares on the basis of a conversion price of HK\$0.50 per Share (subject to adjustment)
“CN2014-1”	the 1% per annum coupon rate convertible notes in the aggregate principal amount of HK\$6,000,000 conferring rights to convert a total of 60,000,000 Shares to be issued by the Company on the basis of a conversion price of HK\$0.1 per Share (subject to adjustment)
“CN2014-2”	the 1% per annum coupon rate convertible notes in the aggregate principal amount of HK\$5,000,000 conferring rights to convert a total of 50,000,000 Shares to be issued by the Company on the basis of a conversion price of HK\$0.1 per Share (subject to adjustment)
“Company”	China E-Learning Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM
“Completion”	the completion of the Subscription Agreements including the issue of the Convertible Notes by the Company to the Subscribers pursuant to Subscription Agreements
“Completion Date”	the completion date in respect of the Subscription Agreements which shall be the first business day after all of the Conditions Precedent are fulfilled by the Company or, as the case may be, waived by the Subscribers (or such later date as the parties to the Subscription Agreements may agree in writing) in respect of the Convertible Notes
“Conditions Precedent”	the conditions precedent for Completion of the Subscription Agreements
“connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Convertible Notes”	Convertible Notes 1 and Convertible Notes 2
“Convertible Notes 1”	the 1% per annum coupon rate convertible notes in the aggregate principal amount of HK\$10,000,000 to be issued by the Company and subscribed by Subscriber Lau in accordance with the terms and conditions of the First Subscription Agreement
“Convertible Notes 2”	the 1% per annum coupon rate convertible notes in the aggregate principal amount of HK\$4,234,400 to be issued by the Company and subscribed by Subscriber Yan in accordance with the terms and conditions of the Second Subscription Agreement
“Conversion Price”	HK\$0.10, being the price for conversion of the Convertible Notes, which is subject to adjustment pursuant to the terms and conditions of the Convertible Notes

“Conversion Share(s)”	the Share(s) to be issued upon the exercise of the conversion rights attaching to the Convertible Notes
“Directors”	directors of the Company
“EICN”	the convertible notes with an aggregate outstanding principal amount of HK\$58,235,956 conferring rights to convert to a total of 116,471,912 Shares on the basis of a conversion price of HK\$0.50 per Share (subject to adjustment)
“ETCN”	the convertible notes with an aggregate outstanding principal amount of HK\$9,611,906 conferring rights to convert to a total of 19,223,812 Shares on the basis of a conversion price of HK\$0.50 per Share (subject to adjustment)
“Existing Convertible Notes”	the existing convertible notes issued by the Company, including CN2011A, CN2011D, EICN, ETCN, CN2014-1 and CN2014-2
“First Subscription Agreement”	the subscription agreement dated 10 December 2013 entered into between the Company and Subscriber Lau in respect of the Subscription 1
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange which is responsible for GEM listing matters
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the general mandate granted to the Directors by the Shareholders at the annual general meeting held on 15 May 2013 to allot, issue and deal with up to 20% of the then issued share capital of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Last Trading Date”	9 December 2013, being the last trading date for the Shares before the date of this announcement
“Noteholder(s)”	the holder(s) of the Convertible Notes
“Second Subscription Agreement”	the subscription agreement dated 10 December 2013 entered into between the Company and Subscriber Yan in respect of the Subscription 2
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber Lau”	Lau Tsz Fui, a merchant
“Subscribers”	Subscriber Lau and Subscriber Yan

“Subscriber Yan”	Yan Deli, a merchant
“Subscription Agreement(s)”	First Subscription Agreement and Second Subscription Agreement
“subscription amount”	the subscription price of the Convertible Notes in the amount payable by each Subscriber to the Company pursuant to and in accordance with the terms of the Subscription Agreements
“Subscriptions”	Subscription 1 and Subscription 2
“Subscription 1”	the subscription of the Convertible Notes 1 by Subscriber Lau pursuant to the First Subscription Agreement
“Subscription 2”	the subscription of the Convertible Notes 2 by Subscriber Yan pursuant to the Second Subscription Agreement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By Order of the Board
China E-learning Group Limited
Chen Hong
Chairman

Hong Kong, 10 December 2013

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Chen Hong (Chairman) and Mr. Yuan Wei; one non-executive director, Mr. Li Xiangjun; and three independent non-executive Directors, namely Dr. Huang Chung Hsing, Mr. Cheung Wai Tak and Ms. Li Ya Ru Nancy.

This announcement, for which 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 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 announcement 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 announcement misleading.

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.