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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

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

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 (the "Directors") of China E-Learning Group Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012, together with the comparative audited figures for the year ended 31 December 2011 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	**2012**	2011
		HK$'000	*HK$'000*
Revenue	*4*	**41,783**	40,140
Cost of sales		**(13,194)**	(16,062)
Gross profit		**28,589**	24,078
Other income	*5*	**222**	3,188
Selling expenses		**(118)**	(458)
Administrative expenses		**(33,128)**	(39,561)
Other expenses		**(3,268)**	(12,543)
Finance costs, net	*6*	**(7,510)**	(6,970)
Loss before tax	*7*	**(15,213)**	(32,266)
Income tax	*8*	**–**	–
Loss for the year		**(15,213)**	(32,266)
Loss for the year attributable to:			
Owners of the Company		**(30,397)**	(39,007)
Non-controlling interests		**15,184**	6,741
		(15,213)	(32,266)
Loss per share	*10*		
– Basic		**(2.07 cents)**	(2.83 cents)
– Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
Loss for the year	**(15,213)**	(32,266)
Other comprehensive income		
Changes in fair value of available-for-sale financial assets	**2,124**	(4,742)
Exchange difference arising on translation of foreign operations	**1,984**	3,052
Other comprehensive income, net of income tax	**4,108**	(1,690)
Total comprehensive loss for the year	**(11,105)**	(33,956)
Comprehensive income for the year attributable to:		
Owners of the Company	**(26,289)**	(40,697)
Non-controlling interests	**15,184**	6,741
	(11,105)	(33,956)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Assets and liabilities			
Non-current assets			
Goodwill	11	**68,055**	–
Property, plant and equipment		**1,630**	3,769
Available-for-sale financial assets		**249**	3,800
		69,934	7,569
Current assets			
Trade and other receivables	12	**79,958**	96,760
Cash and cash equivalents		**22,309**	19,459
		102,267	116,219
Total assets		**172,201**	123,788
Current liabilities			
Trade and other payables	13	**30,950**	45,330
Financial derivatives-current		**1,476**	250
Bank overdraft		**39**	–
Other borrowing-current		**56,737**	–
Convertible notes		**37,814**	66,817
		127,016	112,397
Net current asset/(liabilities)		**(24,749)**	3,822
Total assets less current liabilities		**45,185**	11,391
Non-current liabilities			
Convertible notes		**68,024**	26,105
		68,024	26,105
Total liabilities		**195,040**	138,502
Net liabilities		**(22,839)**	(14,714)
Capital and reserves			
Share capital		**735,939**	732,171
Reserves		**(762,546)**	(750,653)
Non-controlling interests		**3,768**	3,768
Total equity		**(22,839)**	(14,714)

1. ADOPTION OF GOING CONCERN BASIS

The consolidated financial statements have been prepared on a going concern basis notwithstanding the Group had net liabilities of approximately HK$22,839,000 as at 31 December 2012 and incurred a net loss of HK$15,213,000 for the year then ended. In the opinion of the directors of the Company, the Group is able to maintain itself as a going concern in the coming year by taking into consideration the arrangements which include, but are not limited to, the following:

1. The directors of the Company will continue to reduce overheads and costs, and are exploring opportunities for existing business with an aim to attain profitable operations with positive cash flows;

2. The proposal of capital reorganization was approved in an extraordinary general meeting on 18 February 2013 and subject to further legal proceedings in Cayman Islands. This capital reorganization will provide the Company flexibility to the market situations in pricing future capital raising exercises and to issue shares to the prevailing market price timely without going through various statutory requirements. Hence, the directors of the Company can sooner consider various alternatives to enlarge the capital base of the Company in order to provide additional funding to the Group and to extend the maturity dates of convertible notes payables ;

3. The directors of the Company will continue to scale down the non-profitable operations;

4. As the Bank of Shanghai has provided the Group a line of credit of RMB100,000,000 in August 2012, the directors of the Company will consider utilizing this credit facility when necessary.

Based on the aforesaid measures, the directors of the Company are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following amendments and interpretations to existing standards are mandatory for financial periods beginning on or after 1 January 2012:

Amendments to HKAS 12	Deferred tax: Recovery of underlying asset;
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets;

The adoption of the new and revised HKFRSs has had no significant financial effect on these consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

Business segments

Over 99% of the Group's revenue, results, assets and liabilities are derived from the provision of occupational education, industry certification course, skills training and education consultation, no detailed analysis of the Group's operating segments is disclosed.

Geographical segments

The Group's operations are situated in the People's Republic of China (the "PRC") in which its revenue was derived principally therefrom. Accordingly, no geographical segments are presented.

Information about a major customer

No transactions with a single external customer amount to 10% or more of the Group's revenue during the year 2012 and 2011.

4. REVENUE

An analysis of the Group's turnover for the years is as follows:

	2012	2011
	HK$'000	*HK$'000*
Tuition fee revenue	**41,685**	39,968
Sales of educational products	**98**	172
	41,783	40,140

5. OTHER INCOME

	2012	2011
	HK$'000	*HK$'000*
Exchange gains, net	**–**	1
Interest income	**62**	102
Sundry income	**51**	1,089
Gain on redemption of convertible notes	**–**	1,950
Rental income	**109**	46
	222	3,188

6. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest expenses on financial liabilities measured at amortised cost	**7,667**	6,815
Fair value changes on financial derivative	**(157)**	155
	7,510	6,970

7. LOSS BEFORE TAX

	2012	2011
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging (crediting):		
Staff costs (including directors' emoluments		
– basic salaries and allowances	**11,972**	15,772
– contributions to defined contribution plans	**918**	300
– Other	**865**	–
Total staff costs	**13,755**	16,072
Auditors' remuneration:		
– Audit service	**260**	185
– Non-audit service	**3**	18
Professional fee	**6,532**	7,497
Depreciation of property, plant and equipment		
– included in cost of sales	**802**	227
– included in selling expenses	**7**	7
– included in administrative expenses	**1,430**	1,507
	2,239	1,741
Impairment losses on inventories	**–**	121
Impairment losses on trade receivables	**–**	407
Impairment losses on other receivables	**4,902**	6,564
Loss on disposal of available-for-sales financial asset	**2,532**	106
Compensation of convertible notes	**–**	10,860
Payments under operating lease for land and buildings	**2,838**	3,108
Exchange (gains) losses, net	**–**	(1)

8. INCOME TAX (CREDIT) EXPENSE

During the year ended 31 December 2012, no Hong Kong profits tax has been provided for as the Group did not generate any taxable profits in Hong Kong (2011: nil).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Under the Law of 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% (2011: 25%).

The income tax for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

	2012	2011
	HK$'000	*HK$'000*
Loss before tax	**(15,213)**	(32,266)
Tax at respective applicable tax rates	**(8,825)**	(5,324)
Tax effect of expenses not deductible for tax purposes	**1,595**	1,152
Tax effect of income not taxable for tax purposes	**6,933**	(5,900)
Tax effect of tax losses not recognised	**297**	10,072
Income tax for the year	**–**	–

9. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to the owners of the Company of approximately HK$30,397,000 (2011: HK$39,007,000), and based on the weighted average number of shares in issue during the year of approximately 1,469,511,314 ordinary shares (2011: 1,377,821,471), as adjusted to reflect the issue of new shares, bonus shares and shares by conversion of convertible notes during the year.

No diluted loss per share has been presented for 2012 and 2011 as the share options and convertible notes outstanding have anti-dilutive effects on the basic loss per share amounts presented.

11. GOODWILL

	The Group
	HK$'000
Cost	
At 1 January 2011, 31 December 2011	679,104
Acquisition of a subsidiary — Everjoy International	51,409
Acquisition of a subsidiary — Everjoy Technology	16,646
At 31 December 2012	747,159
Accumulated Impairment	
As at 1 January 2011 and 31 December 2011	679,104
Impairment losses recognised during the year	–
At 31 December 2012	679,104
Carrying amounts	
At 31 December 2012	68,055
At 31 December 2011	–

Note:

i. Goodwill arose on acquisition of subsidiaries New Beida Business Study Net Group Limited is HK$647,598,000 on 27 February 2008.

ii. Goodwill arose on acquisition of subsidiaries, IIN Medical (BVI) Group Limited ("IIN Medical (BVI)") and its subsidiaries on 23 April 2009.

iii. Goodwill arose on acquisition of non-controlling interests of Hunan IIN Medical Network Technology Development Company Limited, a subsidiary of IIN Medical (BVI), in May 2009.

Goodwill arose on acquisition of ii and iii is HK$31,506,000.

iv. Goodwill arose on acquisition of subsidiaries, Everjoy International Media Corporation and Everjoy Technology Development Corporation is HK$68,055,000 on 20 December 2012.

Impairment testing of goodwill

i. *Acquisition of New Beida Business Study Net Group Limited ("New Beida")*

As at the year ended 31 December 2009, the Group had performed an impairment testing of goodwill arose on acquisition of New Beida with reference to a valuation carried out by LCH (Asia-Pacific) Surveyors Limited ("LCH"), an independent qualified valuer. As New Beida sustained a negative cash flow for the year ended 31 December 2009 and such position was expected to continue in the foreseeable future, the directors of the Company were of the opinion that the income approach was inappropriate to reflect the value of New Beida as at 31 December 2009. The asset-based approach had been adopted for the valuation for the year ended 31 December 2009, as opposed to the valuation carried out by LCH for the year ended 31 December 2008 where the income approach was adopted. Based on the business valuation, the Group had recognised an impairment loss of HK$326,115,000 in relation to goodwill arose on acquisition of New Beida for the year ended 31 December 2009 (2008: HK$321,483,000). As a result, the goodwill arose on acquisition of New Beida was identified to be fully impaired.

ii. *Acquisition of IIN Medical (BVI)*

As at the year ended 31 December 2010, the Group has performed an impairment testing of goodwill arose on acquisition of IIN Medical (BVI) with reference to a valuation carried out by Grant Sherman Appraisal Limited, based on cash flow forecasts derived from the most recent financial budgets for the next five years with a discount rate of 17.83%. The directors of the Company were of the opinion, based on the business valuation, that there the Group had recognised an impairment loss of HK$31,506,000 in relation to goodwill arose from the acquisition of IIN Medical (BVI) as at 31 December 2010. As a result, the goodwill of HK$31,506,000 on acquisition of IIN Medical (BVI) was identified to be fully impaired.

The recoverable amount of the goodwill has been determined on the basis of value-in-use calculation. The key factors for the value-in-use calculation are discount rates, growth rates and expected changes in revenue and direct costs. Capital Asset Pricing Model has been adopted to estimate the discount rate by using market data of other companies with business similar to IIN Medical (BVI). The growth rate is based on the historical Consumer Price Index of the PRC. Changes in revenue and direct costs are based on past performance of IIN Medical (BVI) and management's expectation of the market development.

iii. *Acquisition of Everjoy International and Everjoy Technology*

The directors have performed an impairment review of the carrying amount of goodwill as at 31 December 2012 and have concluded that no provision for impairment is required. For the purposes of impairment testing, goodwill acquired has been allocated to the smallest individual of cash generating units identified as at 31 December 2012. The recoverable amount of each of the cash generating units is determined based on value-in-use calculations. The calculation uses cash flow projections based on financial estimates made by the directors, with reference to the prevailing market conditions, assuming gross profit margins of 10%. The management assumes that the sales in the following periods will increase significantly and the cash flows are extrapolated with reference to the sales volume of the cash generating units acquired.

12. TRADE AND OTHER RECEIVABLES

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**1,439**	1,391
Less: impairment losses	**(1,439)**	(1,391)
	–	–
Deposits and other receivables	**106,088**	97,404
Prepayments	**7,320**	26,969
Less: impairment losses	**(33,450)**	(27,613)
	79,958	96,760

An aging analysis of trade receivables as at the end of the reporting period is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**–**	–
31 to 60 days	**–**	–
61 to 90 days	**–**	–
Over 90 days	**1,439**	1,391
	1,439	1,391

General credit term that the Group offers to customers is 30 days from billing. Trade receivables disclosed above include amounts which are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

At the end of each reporting period, the Group's trade and other receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of customers, such as financial difficulties or default in payments, and current market conditions. The Group does not hold any collateral over these balances.

The Group's movement for provision of impairment of trade receivables is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**1,391**	916
Impairment losses	**–**	407
Exchange realignment	**48**	68
At 31 December	**1,439**	1,391

The Group's movement for provision of impairment of other receivables is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**27,613**	19,818
Impairment losses	**4,902**	6,564
Exchange realignment	**935**	1,231
At 31 December	**33,450**	27,613

13. TRADE AND OTHER PAYABLES

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Trade payables	**14**	13
Other payables	**3,843**	25,422
Receipt in advance	**20,057**	19,689
Accrued charges	**7,036**	206
	30,950	45,330

An aging analysis of the trade payables as at the end of reporting period is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**–**	–
31 to 60 days	**–**	–
61 to 90 days	**–**	–
Over 90 days	**14**	13
	14	13

SUMMARY OF THE INDEPENDENT AUDITOR'S REPORT ON THE GROUP'S CONSOLIDATED FINANCIAL STATEMENTS

The independent auditor's report of the Group's consolidated financial statements for the year ended 31 December 2012 contains a modified auditor's opinion:

Basis for Qualified Opinion

As explained in Note 1 to the consolidated financial statements which indicates that the Group incurred a net loss of HK$ 15,213,000 for the year ended 31 December 2012 and, as of that date, the Group's had net liabilities of HK$ 22,839,000. The Group would require additional amount of cash flow from operation and/or financing in the forthcoming year to support the future operation of the Company would be an uncertainty on having sufficient net cash inflow to support the Group's ability to continue its operation as a going concern.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

We would like to draw your attention to the following matters that are related to the audit of the Group for year ended 31 December, 2012:

1. Everjoy International Media Corporation and Everjoy Technology Development Corporation ("Two Acquirees"), which have been acquired by the Group in the year ended 31 December, 2012, do not have operating profits, the Group has planned to achieve the generation of future cash flow to support the value of this investment and the accompanying Goodwill that would depend on the future business operation of these Two Acquirees that are being uncertain as at the date of the Report, there may be a potential impairment on the Goodwill resulting from and the investment value of the Two Acquirees purchased during the period ended 31 December, 2012.

2. The Group has been contracting with an independent third-party for the construction of the "The Third Generation Ticketing System" which is still under construction and there is no additional information being available to us for the assessment on the readiness of the said system for fair value measurement, though the Group has stated that it has been managing the development of such system with the independent third-party as at the date of the Report. There may be a potential impairment on value of the said system in future depending on whether there is any available information on the assessment of the fair value of the investment in such system being under development.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2012, the Group recorded revenue of approximately HK$41,783,000 (2011: HK$40,140,000) representing tuition fee revenue and sales of educational products. Gross profit for the year under review was approximately HK$28,589,000 (2011: HK$24,078,000), representing a gross profit margin of 68.4% for the year under review.

During the year, cost of sales was approximately HK$13,194,000 (2011: HK$16,062,000) representing the direct wages and overheads incurred in the distance learning courses.

Other income for the year under review was approximately HK$222,000 (2011: HK$3,188,000) representing rental income of approximately HK$109,000 (2011: HK$46,000), a sundry income of approximately HK$51,000 (2011: HK$1,089,000) and no gain on redemption of convertible notes (2011: HK$1,950,000).

Selling expenses for the year under review was approximately HK$118,000 (2011: HK$458,000) representing the overheads on promotional and advertising activities.

Administrative expenses for the year under review were approximately HK$33,128,000 (2011: HK$39,561,000), of which staff related costs were approximately HK$8,940,000 (2011: HK$7,997,000). Consultancy fees were approximately HK$6,532,000 (2011: HK$7,497,000) representing the costs of conducting due diligences and obtaining financial advices with ongoing projects.

Impairment loss on goodwill for the year under review was nil (2011: nil).

Other expenses for the year under review were approximately HK$3,268,000 (2011: HK$12,543,000) representing the loss on sale of available-for-sale financial assets for approximately HK$2,532,000 (2011: HK$106,205), and a charitable donation for approximately HK$736,000 (2011: nil).

Finance costs during the year were approximately HK$7,510,000 (2011: HK$6,970,000). They primarily consist of accretion of interest on the liability portion of convertible notes of approximately HK$7,667,000 (2011: HK$6,815,000) and fair value changes on the derivative portion of convertible notes is approximately HK$157,000 gain (2011: HK$155,000 loss).

As a result, the consolidated loss for the year under review was approximately HK$15,213,000 (2011: loss of HK$32,266,000).

Capital structure, liquidity and financial resources

The Group financed its business operations mainly with cash revenue generated internally from operating activities and additional funds raised by issuance of shares. As at 31 December 2012, the Group has current assets of approximately HK$102,267,000 (2011: HK$116,219,000), including bank balances and cash of approximately HK$22,309,000 (2011: HK$19,459,000). Total non-current assets of the Group amounted to approximately HK$69,934,000 (2011: HK$7,569,000), which comprised goodwill, property, plant and equipment, and available-for-sale financial assets. Total assets of the Group amounted to approximately HK$172,201,000 (2011: HK$123,788,000) as at 31 December 2012.

As at 31 December 2012, the Group did not have any outstanding bank borrowing. Total current liabilities of the Group were HK$127,016,000 (2011: HK$112,397,000), which mainly comprised trade and other payables, convertible notes and the related financial derivatives. Total non-current liabilities of the Group were approximately HK$68,024,000 (2011: HK$26,105,000), which comprised the convertible notes. Total liabilities of the Group were approximately HK$195,040,000 (2011: HK$138,502,000). As at 31 December 2012, the Group had net liabilities of HK$22,839,000 (2011: HK$14,714,000 net liabilities).

On 27 August 2012, a Bank Strategic Cooperation Agreement was signed between Bank of Shanghai and the Group in relation to the advancement by Bank of Shanghai to the Group a line of credit of RMB100,000,000 (One Hundred Million Renminbi) per year for a period of five years. During the year 2012, the Group did not make any drawing under this credit facility. The Group will consider utilising this credit facility when necessary.

Gearing ratio

Gearing ratio of the Group, as expressed as the ratio of total liabilities to total assets, was approximately 1.1 as at 31 December 2012 (2011: 1.1).

Share Capital

As at 1 January 2012, the authorised share capital of the Company was HK$1,000,000,000 divided into 2,000,000,000 shares of HK$0.50 each and the issued share capital of the Company was approximately HK$732,171,000 divided into 1,464,341,820 shares of HK$0.50 each.

Convertible Notes

Convertible Notes 2012

Pursuant to the acquisition of 100% interest in Everjoy Technology Development Corporation, the Company issued convertible notes ("ETCN-1, and ETCN-2") as partial settlement of the acquisition consideration on 20 December 2012. The aggregate principal of the ETCN-1 and ETCN-2 amounted to HK$9,611,906, bearing an interest of 1% per annum, maturing in 36 months from the date of issue, and convertible into ordinary shares at conversion price of HK$0.50 per share, subject to adjustments.

As at 31 December 2012, the aggregate outstanding principal amount of the ETCN-1 and ETCN-2 was HK$9,611,906. The exercise in full of the vested conversion rights would result in the issue and allotment of 19,223,812 new shares of the Company.

Pursuant to the acquisition of 100% interest in Everjoy International Media Corporation, the Company issued convertible notes ("EICN-1, EICN-2 and EICN-3") as partial settlement of the acquisition consideration on 20 December 2012. The aggregate principal of the EICN-1, EICN-2 and EICN-3 amounted to HK$58,235,956, bearing an interest of 1% per annum, maturing in 36 months from the date of issue, and convertible into ordinary shares at conversion price of HK$0.50 per share, subject to adjustments.

As at 31 December 2012, the aggregate outstanding principal amount of the EICN-1, EICN-2 and EICN-3 was HK$58,235,956. The exercise in full of the vested conversion rights would result in the issue and allotment of 116,471,912 new shares of the Company.

Capital reorganisation

On 4 December 2012, the Company proposed to implement the capital reorganisation by way of (1) the capital reduction; and (2) the sub-division of unissued shares. Pursuant to the capital reduction, the issued share capital of the Company will be reduced by HK$0.40 per existing share by cancelling an equivalent amount of paid-up capital per existing share in issue so that the par value of each new share in issue will be HK$0.10 and the relevant amount of issued capital thereby cancelled will be made available for issue of new shares. Each existing share in the authorized but unissued share capital of the Company was proposed to be sub-divided into 5 shares of a nominal value of HK$0.10 each.

The proposal was approved in an extraordinary general meeting on 18 February 2013 and subject to further legal proceedings in Cayman Islands.

Foreign exchange exposure

Most of the Group's assets, liabilities and transactions were denominated in Hong Kong dollars and Renminbi. Although the exchange rate between Hong Kong dollars and Renminbi has been moderately changing, it remains relatively stable. As the expenditure in PRC was covered by the sales in 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 as minimal. As at 31 December 2012, the Group has no foreign currency borrowings and has not used any financial instrument for hedging the foreign exchange risk.

Significant investments and material acquisition

On 20 December 2012, the Group announced the completion of the major transactions on the acquisition of 100% shareholding interest in Everjoy Technology Development Corporation ("ET") and Everjoy International Media Corporation ("EI"). The aggregate consideration for the sale and purchase of the ET Sale Shares is HK$21,000,000, where the same for the EI Sale Shares is HK$75,600,000.

According to the audited results of both ET and EI for the year ended 31 December 2011, the convertible notes issued respectively to ET amount to a principal amount of HK$9,611,906, in addition to the HK$8,000,000 paid in cash; and to EI amount to a principal amount of HK$58,235,956, in addition to the HK$2,000,000 paid in cash.

Contingent liabilities and charges on the Group's assets

There were no significant contingent liabilities or charges on the Group's assets as at 31 December 2012. (2011: nil)

OPERATIONAL OVERVIEW

The Joint Construction of Network Education College of Beijing University of Chinese Medicine Agreement (共建北京中醫藥大學網路教育學院協議書) ("Joint Construction Agreement") entered into between Beijing University of Chinese Medicine (北京中醫藥大學) and Hunan IIN Medical Network Technology Development Co., Ltd. ("Hunan IIN Medical"), a subsidiary of IIN Medical (BVI), on 29 July 2009 was successfully renewed on 1 July 2010. In accordance with the Joint Construction Agreement, Hunan IIN Medical's entitlement to share 60% of the profits of Distance Education College of Beijing University of Chinese Medicine (北京中醫藥大學遠程教育學院) ("Distance Education College") is reduced to 51% profit-sharing percentage during the year 2010 while all other terms and conditions thereunder are no less favourable than those under the Joint Construction Agreement.

The completion of the major transactions on the acquisition of Everjoy Technology Development Corporation and Everjoy International Media Corporation does not have any material contribution on current year's operation.

Employee Information

As at 31 December 2012, the Group had a total of 43 employees (2011: 43 employees) (including executive directors). For the year under review, the total staff costs amounted to approximately HK$13,755,000 (2011: HK$16,072,000), representing a reduction of approximately 14.4% over the previous year.

The salaries and benefits of the Group's employees were kept at a market level and employees were rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. Staff benefits include contribution to the mandatory provident fund and share options. No share options were granted to employees of the Group in the current year, whereby comparative details are set out in note 34 to the financial statements.

PROSPECTS

During the year 2012, the Group has expanded its horizon into new business sectors, bringing new business elements into the existing technological base. The proposal for an extension to medical health services has been initiated and achieved progress. The Group will continue its efforts in 2013 and expect material outcome.

In December 2012, the acquisition of the entire share capital of Everjoy Technology Development Corporation and Everjoy International Media Corporation was completed. Although the acquisition did not make significant contribution to the performance in 2012, this acquisition is an attempt of the Group to expand its income stream and diversify its business.

Meanwhile, the Group will continue to look for opportunities for our existing business, particularly in developing both vertically and horizontally within the Group's medical education platform, expanding further into our service network, increase the shareholders' value and reduce business risk.

On 3 December 2012, a Strategic Cooperation Agreement was signed between China International Culture & Image Communication Corporation and the Company in relation to the cooperation for projects that involve images owned by Xinhua News Agency for a period of one year.

On 18 January 2013, an Advertisements Agency Agreement was signed between Xinhua Gallery and the Company in relation to the cooperation for advertising production business and solicitation of advertisements broadcast business on the LED Screen for a period of three years.

On 7 February 2013, a Strategic Cooperation Agreement was signed between CybEye, Inc. and the Company in relation to the cooperation for the technical development of mobile image social network software and the provision of network intelligence platforms based on image networks. The cooperation term of the Strategic Cooperation Agreement is one year.

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 year.

AUDIT COMMITTEE

The Company has established an audit committee on 26 November 2001 with written terms of reference for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. The committee comprises three independent non-executive Directors, namely Mr. Cheung Wai Tak (the chairman of the committee), Dr. Huang Chung Hsing, Mr. Wu Tao (resigned on 19 October 2012) and Ms. Li Bailing (appointed on 18 January 2013).

The primary duties of the Audit Committee are to review and to provide supervision over the financial reporting process and internal control system of the Group, to review the audit plan, audit findings and independence of the auditors of the Company, to review the Group's financial information and financial statements, annual reports, interim reports and quarterly reports, and to provide advice and recommendation thereon to the Board.

SCOPE OF WORK OF PARKER RANDALL CF (H.K.) CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in this announcement have been agreed by the Group's auditors, Parker Randall CF (H.K.) CPA Limited to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Parker Randall CF (H.K.) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Parker Randall CF (H.K.) CPA Limited in this announcement.

CORPORATE GOVERNANCE CODE COMPLIANCE

Pursuant to the Corporate Governance Code (the "Code") contained in Appendix 15 to the GEM Listing Rules of the Stock Exchange which set out the principles of good corporate governance and the Code Provisions, the Company has applied the principles and complied with all the Code Provisions as set out in the Code during the year ended 31 December 2012, with the exception of deviation set out below.

GEM Listing Rules 5.05(1) stipulates that the Board of Directors of the Company must include three independent non-executive Directors. During the period from 19 October 2012 to 17 January 2013, the Company only had two Independent non-executive Directors in the Board as one of the independent non-executive director, Mr. Wu Tao, resigned on 19 October 2012, and the Company appointed Ms. Li Bailing as the Independent Non-Executive Director on 18 January 2013. The Company has deviated the GEM Listing Rules 5.05 (1) for a short period as it takes time to find and appoint the appropriate person to be the independent non-executive Director. Currently the Company complies the relevant rule.

The Board of Directors of the Company regularly monitors and reviews the Group's progress in respect of corporate governance practices to ensure compliance.

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

Hong Kong, 22 March 2013

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

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.