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 2016

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 report, for which the directors (the "Directors") of China E-Learning 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 (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 2016, together with the comparative audited figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** *HK$'000*	2015 *HK$'000*
Revenue	*5*	**46,277**	45,701
Cost of goods sold and services provided		**(26,540)**	(28,088)
Gross profit		**19,737**	17,613
Other income	*6*	**138**	310
Administrative expenses		**(42,955)**	(28,773)
Impairment losses on other receivables		**(60,887)**	–
Equity-settled share-based payments		**(34,575)**	(16,537)
Other expenses	*7*	**(21,740)**	(5,170)
Finance costs, net	*8*	**(569)**	(630)
Loss before tax		**(140,851)**	(33,187)
Income tax	*10*	**–**	–
Loss for the year	*9*	**(140,851)**	(33,187)
Loss for the year attributable to:			
Owners of the Company		**(149,736)**	(41,875)
Non-controlling interests		**8,885**	8,688
		(140,851)	(33,187)
Loss per share	*12*		
– Basic		**(4.96 cents)**	(1.36 cents)
– Diluted		**N/A**	N/A

	Notes	**2016**	2015
		HK$'000	*HK$'000*
Loss for the year		**(140,851)**	(33,187)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations			
Exchange difference arising during the year		**311**	(2,555)
Reclassification adjustments relating to foreign operations disposed during the year		**–**	–
Other comprehensive expense, net of income tax		**311**	(2,555)
Total comprehensive expense for the year		**(140,540)**	(35,742)
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(149,425)**	(44,430)
Non-controlling interests		**8,885**	8,688
		(140,540)	(35,742)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Assets and liabilities			
Non-current assets			
Goodwill	*13*	**–**	–
Property, plant and equipment		**1,401**	5,500
Investment in an associate		**50,000**	–
		51,401	5,500
Current assets			
Inventories		**–**	37
Other receivables	*14*	**85,050**	149,603
Financial assets at fair value through profit or loss		**7,952**	7,990
Cash and cash equivalents		**51,128**	64,061
		144,130	221,691
Total assets		**195,531**	227,191
Current liabilities			
Trade and other payables	*15*	**32,560**	49,483
Convertible notes		**9,396**	–
		41,956	49,483
Total liabilities		**41,956**	49,483
Net current assets		**102,174**	172,208
Total assets less current liabilities		**153,575**	177,708
Net assets		**153,575**	177,708
Capital and reserves			
Share capital		**330,498**	294,510
Reserves		**(183,219)**	(123,387)
Non-controlling interests		**6,296**	6,585
Total equity		**153,575**	177,708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(Expressed in HK$)

1. GENERAL INFORMATION

China E-Learning Group Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands on 10 July 2001. The shares of the Company are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" in the annual report.

The consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The Company acts as an investment holding company.

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

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants for the first time in the current year.

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSS

The Group has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for annual periods beginning on or after 1 January 2019.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2017.

The directors anticipate that the adoption of the above new standards, amendments and interpretations to existing standards will not result in a significant impact on the results and financial position of the Group.

4. OPERATING SEGMENT INFORMATION

Business segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group is currently having one continuing operating segment on a single business in a single geographical location, which is the provision of an internet platform for the facilitation of education program in Chinese medicine and other advisory and training programs in the PRC, and all the assets are substantially located in the PRC. Accordingly, there is only one single reportable segment of the Group which is regularly reviewed by the chief operating decision maker.

Information about a major customer

No transactions with a single external customer amount to 10% or more of the Group's revenue during the years ended 31 December 2016 and 2015.

5. REVENUE

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

	2016	2015
	HK$'000	*HK$'000*
Tuition fee revenue	**46,277**	45,701
	46,277	45,701

6. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Interest income	**53**	74
Dividend income on financial assets at fair value through profit or loss	**–**	216
Sundry income	**85**	20
	138	310

7. OTHER EXPENSES

	2016	2015
	HK$'000	*HK$'000*
Donations	**–**	246
Net realised losses on financial assets at fair value through profit or loss	**10,203**	4,122
Net unrealised losses on financial assets at fair value through profit or loss	**8,149**	802
Loss on disposal of property, plant and equipment	**3,388**	–
	21,740	5,170

8. FINANCE COSTS, NET

	2016	2015
	HK$'000	*HK$'000*
Interest expenses on financial liabilities measured at amortised cost	**569**	630
	569	630

9. LOSS FOR THE YEAR

	2016	2015
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging:		
Staff costs (including directors' emoluments)		
– Basic salaries and allowances	**12,144**	12,340
– Contributions to defined contribution plans	**517**	1,169
– Other	**827**	–
– Equity-settled share-based payments	**22,167**	7,433
Total staff costs	**35,655**	20,942
Auditors remuneration:		
– Audit service	**600**	520
Legal and professional fee	**10,258**	4,953
Depreciation of property, plant and equipment	**1,289**	1,643
Payments under operating lease for land and buildings	**1,982**	1,749
Equity-settled share-based payments	**34,575**	16,537
Impairment losses on other receivables	**60,887**	–

10. INCOME TAX

During the year ended 31 December 2016, no Hong Kong profits tax has been provided for as the Group did not generate any taxable profits in Hong Kong (2015: Nil).

PRC subsidiaries are subject to PRC Enterprise Income tax at 25% (2015: 25%). Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016	2015
	HK$'000	*HK$'000*
Loss before tax	**(140,851)**	(33,187)
Tax at respective applicable tax rates	**(14,499)**	(5,291)
Tax effect of expenses not deductible for tax purposes	**24,460**	15,497
Tax effect of income not taxable for tax purposes	**(11,569)**	(11,425)
Tax effect of tax losses not recognised	**1,608**	1,219
Income tax for the year	**–**	–

11. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: Nil).

12. 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$149,736,000 (2015: HK$41,875,000), and based on the weighted average number of shares in issue during the year of approximately 3,020,884,000 ordinary shares, as adjusted to reflect the exercise of share options (2015: 3,072,867,000 ordinary shares, as adjusted to reflect the shares by exercise of share options and share repurchased) during the year.

13. GOODWILL

	HK$'000
Cost	
At 1 January 2015, 31 December 2015 and 31 December 2016	679,104
Accumulated impairment losses	
As at 1 January 2015, 31 December 2015 and 31 December 2016	(679,104)
Carrying amounts	
At 31 December 2016	–
At 31 December 2015	–

Notes:

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.

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.

14. OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Deposits and other receivables	**145,225**	159,742
Prepayments	**11,166**	1,961
Less: impairment losses	**(71,341)**	(12,100)
	85,050	149,603

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

For the year ended 31 December 2016, management has assessed the recoverability of other receivables by reference to the subsequent settlement and ageing, current market conditions. Before the date of the approval of the consolidated financial statements, the management is seeking for various ways of recovering and/or utilizing those other receivables for the best interest of the Company, including but not limited to any subsequent disposal in consideration of other assets for the Company. The Company has assessed the possible impairment of any such receivables and an impairment loss of approximately HK$60,887,000 is provided in the assessment process for the year ended 31 December 2016 taking into account market conditions, subsequent settlement among other things

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**12,100**	12,672
Impaired	**60,887**	–
Exchange realignment	**(1,646)**	(572)
At 31 December	**71,341**	12,100

15. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**543**	1,801
Other payables	**14,040**	29,744
Receipt in advance	**16,042**	15,454
Accrued charges	**1,935**	2,484
	32,560	49,483

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

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**468**	1,774
31 to 60 days	**–**	–
61 to 90 days	**–**	–
Over 90 days	**75**	27
	543	1,801

The average credit period on cost of goods sold and services provided is 1-3 months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2016, the Group recorded revenue of approximately HK$46,277,000 (2015: HK$45,701,000) representing tuition fee revenue and sales of educational products. Gross profit for the year under review was approximately HK$19,737,000 (2015: HK$17,613,000), representing a gross profit margin of 42.7% for the year under review.

During the year, cost of goods sold and services provided amounted to appr oximately HK$26,540,000 (2015: HK$28,088,000) representing the overheads incurred in the distance learning courses.

Other income for the year under review was approximately HK$138,000 (2015: HK$310,000) representing an interest income of approximately HK$53,000 (2015: HK$74,000) and a sundry income of approximately HK$85,000 (2015: HK$20,000).

Administrative expenses for the year under review were approximately HK$42,955,000 (2015: HK$28,773,000), of which staff related costs were approximately HK$35,655,000 (2015: HK$20,942,000). Legal and professional fees were approximately HK$10,258,000 (2015: HK$4,953,000) representing the costs of conducting due diligences and obtaining financial advices with ongoing projects.

Other expenses for the year under review were approximately HK$21,740,000 (2015: HK$5,170,000), representing, a net realised losses on financial assets at fair value through profit or loss of approximately HK$10,203,000 (2015: 4,122,000) a net unrealised losses on financial assets at fair value through profit or loss of approximately HK$8,149,000 (2015: 802,000) and loss on disposal of property, plant and equipment approximately HK$3,388,000 (2015: Nil).

Finance costs during the year were approximately HK$569,000 (2015: HK$630,000).

Capital structure, liquidity and financial resources

The Group financed its business operations mainly by cash revenue generated internally from operating activities and additional funds from exercise of share options. As at 31 December 2016, the Group has current assets of approximately HK$144,130,000 (2015: HK$221,691,000), including bank balances and cash of approximately HK$51,128,000 (2015: HK$64,061,000). Total non-current assets of the Group amounted to approximately HK$51,401,000 (2015: HK$5,500,000), representing property, plant and equipment and investment in an associate. Total assets of the Group amounted to approximately HK$195,531,000 (2015: HK$227,191,000) as at 31 December 2016.

As at 31 December 2016, the Group did not have any outstanding bank borrowing. Total current liabilities of the Group were approximately HK$41,956,000 (2015: HK$49,483,000), which mainly comprised trade and other payables and convertible notes. Total liabilities of the Group were approximately HK$41,956,000 (2015: HK$49,483,000). As at 31 December 2016, the Group had net assets of HK$153,575,000 (2015: HK$177,708,000).

Gearing ratio

Gearing ratio of the Group, as expressed as the ratio of total liabilities to total assets, was approximately 0.29 as at 31 December 2016 (2015: 0.22).

Share Capital

As at 1 January 2016, 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 approximately HK$294,510,000 divided into 2,945,103,196 shares of HK$0.10 each.

During the year, 169,400,000 shares were issued upon exercise of shares options and 190,476,190 shares were issued for acquisition.

As at 31 December 2016, 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 approximately HK$330,498,000 divided into 3,304,979,386 shares of HK$0.10 each

Convertible Notes 2011

The Group had reached several agreements with the holders of the Convertible Notes 2008 which became mature on 28 February 2011, and issued a promissory note for approximately HK$50 million for a settlement. In order to be able to raise sufficient fund for the settlement, the Group issued two tranches of convertible notes ("Convertible Notes 2011 A") on 9 May 2011 and ("Convertible Notes 2011 B") on 11 May 2011.

The aggregate principal of Convertible Notes 2011 A amounted to HK$89,999,934, 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.

The aggregate principal of Convertible Notes 2011 B amounted to HK$36,200,000, bearing an interest of 1% per annum, maturing in 6 months from the date of issue, and convertible into ordinary shares at conversion price of HK$0.50 per share, subject to adjustments. On 11 November 2011, the maturity date was successfully postponed for another 6 months to 11 May 2012. Upon maturity, the principal amount together with the interests due were fully settled by a promissory note.

On 9 May 2014, the Company and the Subscribers entered into the Subscription Agreements pursuant to which the Subscribers have agreed to subscribe for, and the Company has agreed to issue, the Convertible Notes (CN2016-1 to CN2016-5) in the aggregate principal amount of HK$42,399,932, such that the subscription moneys payable in connection with the Subscription of such Convertible Notes would be set-off against the moneys payable by the Company for redeeming the CN2011A in accordance with the Payment Arrangement Deed and against the Indebtedness owing by the Company to the Existing P-note Holders at Completion.

The Convertible Notes 2011 A were fully set-off by the issuance of Convertible Notes (CN2016-3, CN2016-4 and CN2016-5) on 6 June 2014.

On 12 June 2014, the conversion rights attaching to the CN2016-1, CN2016-2 and CN2016-3 have been exercised in full and hence 231,076,922 shares have been issued.

On 13 June 2014, the conversion rights attaching to the CN2016-4 and CN2016-5 have been exercised in full and hence 95,076,399 shares have been issued. Hence, Convertible Notes 2016 (CN2016-1, CN2016-2, CN2016-3, CN2016-4 and CN2016-5) were fully converted.

On 21 July 2011, the Group entered into a subscription agreement with a group of independent subscribers for the issuance of some convertible notes in the aggregate principal amount of HK$42,000,000, bearing an interest rate of 3% per annum, maturing in 12 months from the date of issue, and convertible into ordinary shares at conversion price of HK$0.50 per share, subject to adjustments. Subsequently, the Group issued two tranches of convertible notes ("Convertible Notes 2011 C") on 25 August 2011 for the principal amount of HK$19,500,000 and ("Convertible Notes 2011 D") on 14 September 2011 for the principal amount of HK$22,500,000. Of which, tranche C was fully converted in 2011. On 10 September 2012, the maturity date of the tranche D was postponed foranother 6 months to 7 March 2013. On 7 March 2013, the maturity date of the tranche D was further postponed for 12 months to 6 March 2014. As at 1 January 2014, the outstanding principal amount of the Convertible Notes 2011 D was HK$12,800,000.

On 6 March 2014, the Company has redeemed one of the Convertible Notes 2011 D with the principal amount of HK$10,000,000 in accordance with notice from the holder. The Company is contacting the holder of the Convertible Notes 2011 D with the principal amount of HK$2,800,000 in order to settle the convertible notes. As at 31 December 2016, the Company has not received any reply or notice from the holder and the Company has the funds available for settlement.

Convertible Notes 2012

Pursuant to the acquisition of 100% interest in Everjoy Technology Development Corporation, the Company issued convertible notes ("ETCN") as partial settlement of the acquisition consideration on 20 December 2012. The aggregate principal of ETCN 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.

On 24 April 2014, the conversion rights attaching to ETCN in the principal amount of HK$7,611,906 have been exercised in full and hence 15,223,812 shares have been issued.

Pursuant to the acquisition of 100% interest in Everjoy Inter national Media Corporation, the Company issued convertible notes ("EICN") as partial settlement of the acquisition consideration on 20 December 2012. The aggregate principal of EICN 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.

On 15 August 2014 (after trading hours), the Company and the note holders of ETCN and EICN entered into the Deeds of Amendment, pursuant to which the Company and the note holders of ETCN and EICN agreed to amend certain terms and conditions of the Convertible Notes. Pursuant to the Deeds of Amendment, (i) the Conversion Price of ETCN and EICN will be reduced from HK$0.50 per Share to HK$0.35 per Share; and (ii) the interest rate of ETCN and EICN will be reduced from 1% per annum to zero. Save as amended pursuant to the Deeds of Amendment, all other terms of ETCN and EICN shall remain unchanged and valid.

Furthermore, the Company and each of the note holders of ETCN and EICN entered into a supplemental deed to amend certain terms of the Deeds of Amendment on 16 September 2014.

Assuming the conversion rights attaching to ETCN and EICN are exercised in full at the Conversion Price of HK$0.35, pursuant to ETCN and EICN,172,102,729 conversion shares will be issued by the Company upon exercise of the conversion rights attaching to ETCN and EICN in full.

On 25 September 2014, an ordinary resolution regarding the proposed Amendment of Terms and the Deeds of Amendment and the transactions contemplated thereunder was proposed to the Company's extraordinary general meeting to be held on 15 October 2014 for independent shareholders' approval by way of poll.

On 15 October 2014, the resolution in relation to the proposed amendment to the terms and conditions of ETCN and EICN was duly passed by the independent shareholders by way of poll at the Company's extraordinary general meeting.

On 27 October 2014, the Stock Exchange granted its approval for the Amendment of Terms and the listing of the conversion shares to be issued as a result of the exercise of the conversion rights attaching to ETCN and EICN as amended by the Deeds of Amendment and therefore all the conditions precedent for the Amendment of Terms under the Deeds of Amendment have been fulfilled and the Amendment of Terms has become effective on 27 October 2014.

On 30 October 2014, the conversion rights attaching to ETCN in the principal amount of HK$2,000,000 have been exercised and hence 5,714,285 shares have been issued. Hence ETCN were fully converted.

On 30 October 2014, the conversion rights attaching to EICN in the principal amount of HK$35,000,000 have been exercised and hence 99,999,999 shares have been issued. On 16 December 2014, the conversion rights attaching to EICN in the principal amount of HK$13,235,956 have been exercised and hence 37,817,017 shares have been issued.

As at 1 January 2016, the aggregate outstanding principal amount of EICN was HK$10,000,000. The exercise in full of the vested conversion rights would result in the issue and allotment of 28,571,428 new shares of the Company.

On 18 December 2015 (after trading hours), the Company entered into the Subscription Agreement with Ms. Li Jing, pursuant to the Subscription Agreement, the Company has agreed to issue, and Ms. Li Jing has agreed to subscribe for the Convertible Notes 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 owning by the Company to Ms. Li Jing under EICN at the Completion. EICN was matured on 20 December 2015. Completion of the issue of the Convertible Notes in the aggregate principal amount of HK$10,000,000 took place on 13 January 2016.

Convertible Notes 2018

On 18 December 2015 (after trading hours), the Company entered into the Subscription Agreement with Ms. Li Jing, pursuant to the Subscription Agreement, the Company has agreed to issue, and Ms. Li Jing has agreed to subscribe for the Convertible Notes 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 owning by the Company to Ms. Li Jing under EICN at the Completion.

Completion of the issue of the Convertible Notes 2018 (CN2018) in the aggregate principal amount of HK$10,000,000 took place on 13 January 2016.

As at 30 September 2016, the aggregate outstanding principal amount of CN2018 was HK$10,000,000. The exercise in full of the vested conversion rights would result in the issue and allotment of 28,571,428 new shares of the Company.

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 2016, 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 17 November 2014, the Company entered into a strategic cooperation agreement ("Strategic Cooperation Agreement") with Beijing Beizhong Asset Management Company Limited (北京北中資產管理有限公司) ("Beijing Beizhong") in relation to the transfer of 49% of the right of income of the Distance Education College of the Beijing University of Chinese Medicine (北京中醫藥大學遠程教育學院) from the Beijing University of Chinese Medicine (北京中醫藥大學) to the Company and other cooperation projects (the "Cooperation").

On 12 February 2015, the Company and Beijing Beizhong agreed in writing to extend the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement for another three months.

On 16 May 2015, the Company and Beijing Beizhong agreed in writing to extend the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement for another nine months and extend the time limit for the Strategic Cooperation Agreement to lapse and cease to have any legal effect for one more year.

On 16 November 2015, the Company and Beijing Beizhong agreed in writing to extend the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement for another six months (that is, a total of 18 months from 17 November 2014).

On 16 May 2016, the Company and Beijing Beizhong agreed in writing to extend the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement for another six months.

On 16 November 2016, the Company and Beijing Beizhong are negotiating about extending the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement.

On 28 November 2016, the Company and Beijing Beizhong agreed in writing to extend the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement to 31 December 2016.

During the period from 17 December 2015 to 14 January 2016, the Company purchased a total of 7,427,000 Wai Chi Shares on the Stock Exchange at the prices per Wai Chi Share ranging from HK$3.33 to HK$4.00. The total consideration of the Acquisition was approximately HK$29.4 million. As a result of the Acquisition, the Group held 3.71% of Wai Chi Shares. The Acquisition was made by the Company solely for trading purpose.

On 23 August 2016, the Company entered into a Memorandum of Cooperation with Ms. Zhang Manlin, being holder of Beijing Huada Kanghong iotechnology Co., Ltd. (北京華達康弘生物科技有限責任公司) (the "Target Company I") as to 30%, Mr. Yao Xianguo, being holder of the Target Company I as to 30%, and Mr. Zhujiang, being holder of the Target Company I as to 40%, (collectively hold in aggregate 100% equity interest of the Target Company I), in relation to the possible transfer of not less than 65% of the equity interest of the Target Company I to the Company and other cooperation projects. The Target Company I is a limited company incorporated in the People's Republic of China. It is principally engaged in the business of prepackaged food wholesale and biotechnology development. The consideration has not yet been determined but shall be determined with reference to the value of the Target Company I to be assessed by an independent professional valuer to be appointed by the Parties and may be satisfied by the Company's issue of convertible notes, and the price for issuing such Shares and the conversion price of such convertible notes shall not exceed HK$0.20 to HK$0.22 per Share. The reason for the possible transfer was for the Company to develop the health food market. Details of which were disclosed in the announcement of the Company dated 23 August 2016.

On 30 August 2016, Million Forever Limited, a wholly-owned subsidiary of the Company entered into the Sale and Purchase Agreement with Happy Leisure Corp. in relation to the acquisition of 45% equity interest in Business Harbour Inc. Business Harbour Inc. is principally engaged in the compilation and production of the content of online education courses and related business. The maximum consideration was HK$50,000,000 which will be satisfied by (i) issue and allotment of 190,476,190 ordinary shares at HK$0.21 per ordinary shares by the Company of HK$40,000,000 in total; (ii) HK$10,000,000 to be settled by cash upon fulfillment of profit guarantee. A valuation report was issued by an independent professional valuer on 25 August 2016 and the value of Business Harbour Inc., as at 24 August 2016, was determined as HK$150,000,000. On 2 November 2016, the acquisition was completed with the terms and conditions of the Sale and Purchase Agreement. Details of which were disclosed in the announcements of the Company dated 30 August 2016, 31 August 2016, 21 September 2016, 30 September 2016 and 2 November 2016.

On 11 October 2016 and 24 October 2016, Beijing Hua Tuo Education Technology Company Limited (北京華拓教育科技有限公司), a wholly-owned subsidiary of the Company, entered into an agreement and a supplementary agreement with Mr. Wang Peng and Mr. Ma Liejun in relation to a possible acquisition of 49% equity interest in Beijing Youli Lianxu Technology Co., Ltd. (北京優力聯旭科技有限公司) (the "Target Company II"), at a consideration of HK$91,581,000 (subject to adjustment) to be settled by the Company's issue of convertible note with an aggregate principal amount of HK$91,581,000, which may be converted into 384,794,117 shares at HK$0.238 per share (subject to adjustment). The reason for the possible acquisition was for the Company to develop the internet platform sale market. Details of which and the major terms of the adjustment were disclosed in the announcements of the Company dated 11 October 2016 and 24 October 2016.

On 1 November 2016, the Company and Legend Japanese Food Limited (嶺進日本食品有限公司) ("LJFL") signed a memorandum of cooperation for the Company's possible acquisition of all or part of the equity interest in Shag Mei International Food Limited (正味國際食品有限公司) ("Target Company III") and/or its related companies (the "Target Companies") and the other cooperation projects. The Target Company III is a limited company incorporated in Hong Kong which is principally engaged in the business of food processing and sale. LJFL owns the entire issued share capital of the Target Company III. The consideration has not yet been determined but shall be determined with reference to the value of the Target Company III to be assessed by an independent professional valuer to be appointed by the Parties and may be satisfied by the Company's issue of convertible notes, and the price for issuing such Shares and the conversion price of such convertible notes shall not exceed HK$0.28 per Share. The reason for the possible acquisition was for the Company to develop the business of food processing and sale. Details of which were disclosed in the announcement of the Company dated 1 November 2016.

On 21 December 2016 Company and LJFL entered into the Agreement in relation to a possible acquisition of all equity interest in Target Company III, at a consideration of HK$96,000,000 (subject to adjustment) to be settled by the Company's issue of convertible note with an aggregate principal amount of HK$96,000,000, which may be converted into 369,230,769 shares at HK$0.26 per share (subject to adjustment). The reason for the possible acquisition was for the Company to develop the business of food processing and sale market. Details of which and the major terms of the adjustment were disclosed in the announcements of the Company dated 21 December 2016.

On 15 November 2016 the Company and Joyful Area Worldwide Limited ("JAWL") entered into the Memorandum of Cooperation for the Company's possible acquisition of all of the equity interest in the Maxi Trick Investment Limited (the "Target Company IV") and other cooperation projects. The Target Company IV is a limited company incorporated in Vanuatu. The Target Company and its subsidiaries are principally engaged in internet sales and electric commerce and trading. JAWL owns the entire issued share capital of the Target Company IV. The consideration has not yet been determined but shall be determined with reference to the value of the Target Company IV to be assessed by an independent professional valuer to be appointed by the Parties and may be satisfied by the Company's issue of convertible notes, and the price for issuing such Shares and the conversion price of such convertible notes shall range from HK$0.257 to HK$0.265 per Share. The reason for the possible acquisition was for the Company to develop the internet and electric sales and commerce and trading business. Details of which were disclosed in the announcement of the Company dated 15 November 2016.

On 29 December 2016 Company and JAWL entered into the Agreement in relation to a possible acquisition of all equity interest in Target Company IV, at a consideration of HK$157,500,000 (subject to adjustment) to be settled by the Company's issue of convertible note with an aggregate principal amount of HK$157,500,000, which may be converted into 637,651,821 shares at HK$0.247 per share (subject to adjustment). The reason for the possible acquisition was for the Company to develop the business of internet sales and electric commerce and trading. Details of which and the major terms of the adjustment were disclosed in the announcements of the Company dated 29 December 2016.

On 28 November 2016 the Company and Mr. Ma and Mr. Zhao entered into the Memorandum of Cooperation for the Company's possible acquisition of all of the equity interest in the Beijing Dingtai Technology Co., Ltd. (the "Target Company V") and other cooperation projects. The Target Company V is a limited company incorporated in Beijing. The Target Company is principally engaged in electric commerce and trading and marketing and product research and development business and owns self-developed brands. Mr. Ma and Mr. Zhao own the entire issued share capital of the Target Company V. The consideration has not yet been determined but shall be determined with reference to the value of the Target Company V to be assessed by an independent professional valuer to be appointed by the Parties and may be satisfied by the Company's issue of convertible notes, and the price for issuing such Shares and the conversion price of such convertible notes shall range from HK$0.264 to HK$0.266 per Share. The reason for the possible acquisition was for the Company to develop the electric commerce and trading and marketing business. Details of which were disclosed in the announcement of the Company dated 28 November 2016.

On 20 March 2017 the Company and Zhong He Xin Yuan Technology Company Limited* 中核新源科技有限公司 ("ZHXY") entered into a strategic cooperation agreement. ZHXY is a company incorporated with limited liability in the People's Republic of China and is a member of the China Nuclear Industry Group* 中國核工業集團. Zhong He Xin Yuan owns the core technologies in the application of nuclear technologies, including but not limited to the design and setting of the standards of irradiation station, and in the manufacturing and application of irradiation accelerators. The reason for the signing of the Strategic Cooperation Agreement and the cooperation with Zhong He Xin Yuan will enable the Company to venture into in the business of irradiation. Details of which were disclosed in the announcement of the Company dated 20 March 2017.

The Company believed that the above mentioned possible acquisition and/or completed acquisitions, when materialized, will strengthen the positive cash flow and earnings for the Group in the long run.

Significant investments

On 30 August 2016, the Company entered into the Sale and Purchase Agreement with the Vendor in relation to the acquisition of 45% equity interest in Business Harbour Inc.

For detailed information regarding the transaction of Business Harbour Inc., please refer to the announcement of the Company dated 30 August 2016.

On 2 November 2016, the Company was completed with the terms and conditions of the Sale and Purchase Agreement.

For detailed information regarding the completion of transaction, please refer to the announcement of the Company dated 3 November 2016.

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 2016 (2015: Nil).

OPERATIONAL OVERVIEW

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.

On 1 July 2010, 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), was successfully renewed. 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 not less favourable than those under the Joint Construction Agreement. This e-learning business remained the core business of the Group in 2016.

On 14 April 2015, Hunan IIN Medical, a wholly-owned subsidiary of the Company, entered into a supplemental agreement (the "Agreement") with the Beijing University of Chinese Medicine (北京中醫藥大學) ("BUCM") for amending the agreement dated 29th June 2010 signed between them. Pursuant to the Agreement, Hunan IIN Medical will pass its daily business management and administrative management in respect of the Distance Education College of the Beijing University of Chinese Medicine (北京中醫藥大學遠程教育學院) (the"Distance Education College") to BUCM.

This arrangement is primarily made for the purpose of consolidating the daily business management and administrative management of the Distance Education College, so as to reduce operating costs and increase revenue, fully leverage the advantages of both parties in their respective areas, and lay a solid foundation for overall expansion in the future.

Employee Information

For the year under review, the total staff costs amounted to approximately HK$35,655,000 (2015: HK$20,942,000), representing an increase of approximately HK$14,713,000 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. Share options were granted to employees of the Group in the current year, whereby comparative details are set out in note 33 in the annual report.

PROSPECTS

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.

On 17 November 2014, the Company entered into a strategic cooperation agreement ("Strategic Cooperation Agreement") with Beijing Beizhong Asset Management Company Limited (北京北中資產管理有限公司) ("Beijing Beizhong") in relation to the transfer of 49% of the right of income of the Distance Education College of the Beijing University of Chinese Medicine (北京中醫藥大學遠程教育學院) from the Beijing University of Chinese Medicine (北京中醫藥大學) to the Company and other cooperation projects (the "Cooperation").

On 12 February 2015, the Company and Beijing Beizhong agreed in writing to extend the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement for another three months.

On 16 May 2015, the Company and Beijing Beizhong agreed in writing to extend the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement for another nine months and extend the time limit for the Strategic Cooperation Agreement to lapse and cease to have any legal effect for one more year.

On 16 November 2015, the Company and Beijing Beizhong agreed in writing to extend the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement for another six months (that is, a total of 18 months from 17 November 2014).

On 16 May 2016, the Company and Beijing Beizhong agreed in writing to extend the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement for another six months.

As at 28 November 2016, the Company and Beijing Beizhong agreed in writing to extend the time for taking practical actions in respect of the Cooperation under the Strategic Cooperation Agreement to 31 December 2016.

Furthermore, 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.

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 in compliance with the GEM Listing Rules. The committee currently comprises three independent non-executive directors, namely Mr. Li Qunsheng (the chairman of the committee), Dr. Huang Chung Hsing and Ms. Li Ya Ru Nancy.

The primary duties of the audit committee are to review and to provide supervision over the financial reporting process, risk management 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.

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 sets out the principles of good corporate governance, the provisions of the Code (the "Code Provisions") and the recommended best practices, 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 2016, with the exception of deviation set out below.

Under Code Provision A.2.1, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Following the step down of Mr. Chen Hong from the office of chairman and an executive director of the Company on 14 February 2014, the Company has not appointed chairman, and the roles and functions of the chairman have been performed by all the executive directors collectively.

Under Code Provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election while all directors should be subject to retirement by rotation at least once every three years. During the year, the non-executive director and two independent non-executive directors are appointed for a specific term of service and one independent non-executive director is not appointed for a specific term of service. Since each of the independent non-executive directors is subject to rotation and re-election at the annual general meeting in accordance with the articles of association of the Company, as such, the Company considers that sufficient measures have been taken to serve the purpose of the Code Provision A.4.1 of the Code.

By Order of the Board
China E-Learning Group Limited
Yuan Wei
Executive Director

Hong Kong, 30 March 2017

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Yuan Wei, Mr. Wang Weihua and Ms. Zhang Jianxin; and three independent non-executive directors, namely Dr. Huang Chung Hsing, Mr. Li Qunsheng and Ms. Li Ya Ru Nancy.