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 2013

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 (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 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.

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 2013, together with the comparative audited figures for the year ended 31 December 2012 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Continuing operations			
Revenue	4	**47,066**	41,783
Cost of goods sold and services provided		**(25,098)**	(13,194)
Gross profit		**21,968**	28,589
Other income	5	**667**	222
Selling expenses		**–**	(118)
Administrative expenses	8	**(34,917)**	(33,128)
Other expenses	6	**(462)**	(3,268)
Finance costs, net	7	**(9,807)**	(7,510)
Loss before tax		**(22,551)**	(15,213)
Income tax	9	**–**	–
Loss for the year from continuing operations	8	**(22,551)**	(15,213)
Discontinued operations			
Loss for the year from discontinued operations	11	**(63,531)**	–
Loss for the year		**(86,082)**	(15,213)
Loss for the year attributable to:			
Owners of the Company		**(96,449)**	(30,397)
Non-controlling interests		**10,367**	15,184
		(86,082)	(15,213)
Loss per share	12		
From continuing and discontinued operations			
– Basic		**(6.53 cents)**	(2.07 cents)
– Diluted		**N/A**	N/A
From continuing operations			
– Basic		**(2.23 cents)**	(2.07 cents)
– Diluted		**N/A**	N/A
From discontinued operations			
– Basic		**(4.30 cents)**	–
– Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013	2012
	HK$'000	*HK$'000*
Loss for the year	**(86,082)**	(15,213)
Other comprehensive income		
Changes in fair value of available-for-sale financial assets	**393**	2,124
Exchange difference arising on translation of foreign operations	**1,489**	1,984
Other comprehensive income, net of income tax	**1,882**	4,108
Total comprehensive expense for the year	**(84,200)**	(11,105)
Comprehensive income (expense) for the year attributable to:		
Owners of the Company	**(95,228)**	(26,289)
Non-controlling interests	**11,028**	15,184
	(84,200)	(11,105)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Assets and liabilities			
Non-current assets			
Goodwill	13	–	68,055
Property, plant and equipment		1,165	1,630
Available-for-sale financial assets		–	249
		1,165	69,934
Current assets			
Inventories		11	–
Trade and other receivables	14	89,126	79,958
Cash and cash equivalents		15,101	22,309
		104,238	102,267
Assets classified as held for sale		29,480	–
		133,718	102,267
Total assets		134,883	172,201
Current liabilities			
Trade and other payables	15	48,168	30,950
Financial derivatives		500	1,476
Bank overdraft		–	39
Other borrowings		35,483	56,737
Convertible notes		52,952	37,814
		137,103	127,016
Liabilities directly associated with assets classified as held for sale		59	–
		137,162	127,016
Net current liabilities		(3,444)	(24,749)
Total assets less current liabilities		(2,279)	45,185
Non-current liabilities			
Other borrowing		31,304	–
Convertible notes		60,265	68,024
		91,569	68,024
Total liabilities		228,731	195,040
Net liabilities		(93,848)	(22,839)
Capital and reserves			
Share capital		161,422	735,939
Reserves		(261,026)	(762,546)
Non-controlling interests		5,756	3,768
Total equity		(93,848)	(22,839)

1. ADOPTION OF GOING CONCERN BASIS

The consolidated financial statements have been prepared on a going concern basis notwithstanding the Group had net current liabilities and net liabilities of approximately HK$3,444,000 and HK$93,848,000 respectively as at 31 December 2013 and incurred a net loss of HK$86,082,000 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 to implement capital reorganization by way of capital reduction and sub-division of unissued shares of the Company was approved in an extraordinary general meeting of the Company in February 2013 and became effective in July 2013.

   The capital reorganization provides the Company more 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. In addition, the directors of the Company proposed the refreshment of the existing general mandate at the extraordinary general meeting to be held on 28 March 2014. The financial flexibility provided by the refreshment of existing general mandate (upon approval) would widen the sources of funds of the Company.

3. In October 2013, the Company decided to dispose of Everjoy Technology Development Corporation and Everjoy International Media Corporation ("Everjoy") and transfer of deposit on improving the online ticketing system at the consideration which was determined based on the fair values of Everjoy and online ticketing system assessed by the independent professional valuer. In February 2014, the valuer issued the reports and the consideration for the disposal of Everjoy and transfer of online ticketing system has been fixed at RMB20,600,000 and RMB2,800,000 respectively. The disposal and transfer consideration was paid to the Company in March 2014.

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 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 HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HAKS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK (IFRIC) – INT 20	Stripping Costs in the Oroduction Phase of a Surface Mine

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. 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 2013 and 2012.

4. REVENUE

Continuing operations

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

	2013	2012
	HK$'000	*HK$'000*
Tuition fee revenue	**47,066**	41,685
Sales of educational products	**–**	98
	47,066	41,783

5. OTHER INCOME

	2013	2012
	HK$'000	*HK$'000*
Continuing operations		
Gain on disposal of property, plant and equipment	**241**	–
Interest income	**43**	62
Rental income	**–**	109
Sundry income	**383**	51
	667	222

6. OTHER EXPENSES

	2013	2012
	HK$'000	*HK$'000*
Continuing operations		
Donations	**251**	736
Loss on disposal of available-for-sale financial assets	**2**	2,532
Loss on redemption of convertible notes	**209**	–
	462	3,268

7. FINANCE COSTS, NET

	2013	2012
	HK$'000	*HK$'000*
Continuing operations		
Interest expenses on financial liabilities measured at amortised cost	**12,029**	7,667
Fair value changes on financial derivative	**(2,222)**	(157)
	9,807	7,510

8. LOSS FOR THE YEAR FROM CONTINUING OPERATIONS

	2013	2012
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging:		
Staff costs (including directors' emoluments)		
– basic salaries and allowances	**9,988**	11,972
– contributions to defined contribution plans	**873**	918
– other	**31**	865
– share-based payment expense	**6,224**	–
Total staff costs	**17,116**	13,755
Auditors' remuneration:		
– audit service	**425**	260
– non-audit service	**–**	3
Professional fee	**5,617**	6,532
Depreciation of property, plant and equipment		
– included in cost of goods sold and services provided	**–**	802
– included in selling expenses	**–**	7
– included in administrative expenses	**1,689**	1,430
Total depreciation of property, plant and equipment	**1,689**	2,239
Impairment losses on other receivables	**–**	4,902
Payments under operating lease for land and buildings	**3,325**	2,838

9. INCOME TAX (RELATING TO CONTINUING OPERATIONS)

During the year ended 31 December 2013, no Hong Kong profits tax has been provided for as the Group did not generate any taxable profits in Hong Kong (2012: nil).

PRC subsidiaries are subject to PRC Enterprise Income tax at 25% (2012: 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 income statement as follows:

	2013	2012
	HK$'000	*HK$'000*
Loss before tax (from continuing operations)	**(22,551)**	(15,213)
Tax at respective applicable tax rates	**(3,082)**	(8,825)
Tax effect of expenses not deductible for tax purposes	**12,616**	1,595
Tax effect of income not taxable for tax purposes	**(11,766)**	6,933
Tax effect of tax losses not recognised	**2,873**	297
Utilisation of tax losses previously not recognised	**(641)**	–
Income tax for the year (relating to continuing operations)	**–**	–

10. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting period (2012: Nil).

11. LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS

	2013	2012
	HK$'000	*HK$'000*
Revenue	**3,593**	–
Profit before tax	**3,593**	–
Loss on remeasurement to fair values less costs to sell		
— Impairment losses on goodwill	**(56,008)**	–
— Impairment losses on other receivables	**(11,116)**	–
Loss for the year from discontinued operations	**(63,531)**	–

The Group has discontinued the operating segment on online ticketing and marketing business through Everjoy Technology Development Corporation and Everjoy International Media Caporation since 31 October 2013.

12. LOSS PER SHARE

From continuing and discontinued operations

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$96,449,000 (2012: HK$30,397,000), and based on the weighted average number of shares in issue during the year of approximately 1,476,858,000 ordinary shares (2012:1,469,511,000 ordinary shares), as adjusted to reflect the shares by conversion of convertible notes during the year.

From continuing operations

The calculation of the basic loss per share from continuing operations is based on loss for the year from continuing operations attributable to the owners of the Company of approximately HK$32,918,000, and based on the weighted average number of shares in issue during the year of approximately 1,476,858,000 ordinary shares (2012: 1,469,511,000 ordinary shares), as adjusted to reflect the shares by conversion of convertible notes during the year.

From discontinued operations

The calculation of the basic loss per share from discontinued operations is based on loss for the year from discontinued operations attributable to the owners of the Company of approximately HK$63,531,000, and based on the weighted average number of shares in issue during the year of approximately 1,476,858,000 ordinary shares (2012: 1,469,511,000 ordinary shares), as adjusted to reflect the shares by conversion of convertible notes during the year.

No diluted loss per share has been presented for the years of 2013 and 2012 as the share options and convertible notes outstanding have anti-dilutive effects on the basic loss per share amounts presented.

13. GOODWILL

	The Group
	HK$'000
Cost	
At 1 January 2012 *(Notes i, ii & iii)*	679,104
Acquisition of a subsidiary – Everjoy International Media Corporation *(Note iv)*	51,409
Acquisition of a subsidiary – Everjoy Technology Development Corporation *(Note iv)*	16,646
At 31 December 2012	747,159
Transfer to Assets classified as held for sale *(Note v)*	(68,055)
At 31 December 2013	679,104
Accumulated impairment	
As at 1 January 2012 and 31 December 2012	679,104
Impairment losses recognised during the year	56,008
Transfer to Assets classified as held for sale *(Note v)*	(56,008)
At 31 December 2013	679,104
Carrying amounts	
At 31 December 2013	–
At 31 December 2012	68,005

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 ("EI") and Everjoy Technology Development Corporation ("ET") is HK$68,055,000 on 20 December 2012.

v. On 31 October 2013, the Company entered into an agreement to dispose of EI and ET. The disposal was completed on 12 March 2014, the goodwill and accumulated impairment of ET and EI was transfer to Assets classified as held for sale accordingly.

14. TRADE AND OTHER RECEIVABLES

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**–**	1,439
Less: impairment losses	**–**	(1,439)
	–	–
Deposits and other receivables	**104,576**	106,088
Prepayments	**2,627**	7,320
Less: impairment losses	**(18,077)**	(33,450)
	89,126	79,958

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

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**–**	–
31 to 60 days	**–**	–
61 to 90 days	**–**	–
Over 90 days	**–**	1,439
	–	1,439

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	
	2013	2012
	HK$'000	*HK$'000*
At 1 January	**1,439**	1,391
Written-off	**(1,439)**	–
Exchange realignment	**–**	48
At 31 December	**–**	1,439

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

	The Group	
	2013	2012
	HK$'000	*HK$'000*
At 1 January	**33,450**	27,613
Impairment losses	**11,116**	4,902
Transfer to Assets classified as held for sale	**(11,116)**	–
Written-off	**(20,745)**	–
Exchange realignment	**5,372**	935
At 31 December	**18,077**	33,450

15. TRADE AND OTHER PAYABLES

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Trade payables	**578**	14
Other payables	**19,999**	3,843
Receipt in advance	**20,425**	20,057
Accrued charges	**7,166**	7,036
	48,168	30,950

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

	The Group	
	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**–**	–
31 to 60 days	**–**	–
61 to 90 days	**–**	–
Over 90 days	**578**	14
	578	14

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2013, the Group's continuing operations recorded revenue of approximately HK$47,066,000 (2012: HK$41,783,000) representing tuition fee revenue and sales of educational products. Gross profit for the year under review was approximately HK$21,968,000 (2012: HK$28,589,000), representing a gross profit margin of 46.7% for the year under review.

During the year, cost of sales for continuing operations amounted to approximately HK$25,098,000 (2012:HK $13,194,000) representing the direct wages and overheads incurred in the distance learning courses.

Other income for the year under review was approximately HK$667,000 (2012: HK$222,000) representing the gain on disposal of property, plant and equipment of approximately HK$241,000 (2012: Nil), a sundry income of approximately HK$383,000 (2012: HK$51,000).

Administrative expenses for continuing operations for the year under review were approximately HK$34,917,000 (2012: HK$33,128,000), of which staff related costs were approximately HK$17,116,000 (2012: HK$13,755,000). Professional fees were approximately HK$5,617,000 (2012: HK$6,532,000) representing the costs of conducting due diligences and obtaining financial advices with ongoing projects.

Other expenses for the year under review were approximately HK$462,000 (2012: HK$3,268,000) representing the loss on redemption of convertible notes for approximately HK$209,000 (2012: HK$Nil), and a charitable donation for approximately HK$251,000 (2012: HK$736,000).

Finance costs during the year were approximately HK$9,807,000 (2012: HK$7,510,000). They primarily consist of accretion of interest on financial liabilities measured at amortised cost of approximately HK$12,029,000 (2012: HK$7,667,000) and fair value changes on the derivative portion of convertible notes has gain of approximately HK$2,222,000 (2012: HK$157,000 gain).

During the year, the loss from discontinued operations was approximately HK$63,531,000, which included impairment losses on goodwill of approximately HK$56,008,000 and impairment loss on other receivables of approximately HK$11,116,000.

As a result, the consolidated loss for the year under review was approximately HK$86,082,000 (2012: loss of HK$15,213,000).

Capital structure, liquidity and financial resources

The Group financed its business operations mainly with cash revenue generated internally from operating activities and additional funds from borrowings. As at 31 December 2013, the Group has current assets of approximately HK$133,718,000 (2012: HK$102,267,000), including bank balances and cash of approximately HK$15,101,000 (2012: HK$22,309,000). Total non-current assets of the Group amounted to approximately HK$1,165,000 (2012: HK$ 69,934,000), representing property, plant and equipment. Total assets of the Group amounted to approximately HK$134,883,000 (2012: HK$172,201,000) as at 31 December 2013.

As at 31 December 2013, the Group did not have any outstanding bank borrowing. Total current liabilities of the Group were HK$137,162,000 (2012: HK$127,016,000), which mainly comprised trade and other payables, other borrowings, convertible notes and the related financial derivatives. Total non-current liabilities of the Group were approximately HK$91,569,000 (2012: HK$68,024,000), which comprised the convertible notes and other borrowing. Total liabilities of the Group were approximately HK$228,731,000 (2012: HK$195,040,000). As at 31 December 2013, the Group had net liabilities of HK$93,848,000 (2012: HK$22,839,000 net liabilities).

Gearing ratio

Gearing ratio of the Group, as expressed as the ratio of total liabilities to total assets, was approximately 1.7 as at 31 December 2013 (2012: 1.1).

Share Capital

As at 1 January 2013, the authorised share capital of the Company was HK$5,000,000,000 divided into 10,000,000,000 shares of HK$0.50 each and the issued share capital of the Company was approximately HK$735,939,451 divided into 1,471,878,902 shares of HK$0.50 each.

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.

On 22 July 2013 (Cayman Islands time), the relevant court order confirming the capital reduction and the minutes approved by the Court pursuant to the Companies Law were filed with the Registrar of Companies in the Cayman Islands and all other conditions of the capital reorganisation were fulfilled. The capital reorganisation became effective on Monday, 22 July 2013 (after trading hours).

During the year, shares were issued upon conversion of convertible notes as follows:

Date of conversion	Principal amount of convertible notes	Conversion price	Number of shares issued
	HK$	*HK$*	
19 December 2013	14,234,400	0.1	142,344,000
	14,234,400		142,344,000

As at 31 December 2013, 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$161,422,290 divided into 1,614,222,902 shares of HK$0.10 each.

Convertible Notes

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 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.

As at 31 December 2013, the outstanding principal amount of the Convertible Notes 2011 A was HK$29,999,934. The exercise in full of the vested conversion rights would result in the issue and allotment of 59,999,868 new shares of the Company.

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 for another 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 2013, the outstanding principal amount of the Convertible Notes 2011 D was HK$22,500,000. The exercise in full of the vested conversion rights would result in the issue and allotment of 45,000,000 new shares of the Company. A noteholder obtained a court order for the principal amount of HK$9,700,000 forcing the payment of debt on 3 January 2013. The Company has complied in full.

Pursuant to the terms and conditions of the instrument constituting the convertible notes, no adjustments will be made to the conversion price of the outstanding convertible notes, as a result of the capital reorganisation becoming effective on the effective date.

As at 31 December 2013, the outstanding principal amount of the Convertible Notes 2011D was HK$12,800,000 and its maturity date is 6 March 2014. The exercise in full of the vested convertible rights would result in the issue and allotment of 25,600,000 new shares of the Company.

On 6 March 2014, the Company has redeemed one of the Convertible Notes 2011D 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 2011D with the principal amount of HK$2,800,000 in order to settle the convertible notes. As at the announcement date, the Company has not received any reply or notice from the holder, and the Company has the funds available for redemption.

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 2013, 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 2013, 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.

Pursuant to the terms and conditions of the instrument constituting the convertible notes, no adjustments will be made to the conversion price of the outstanding convertible notes, as a result of the capital reorganisation becoming effective on the effective date.

Convertible Notes 2014

On 29 November 2013, the Company entered into a subscription agreement with a subscriber pursuant to which the Company has agreed to issue, and the subscriber has agreed to subscribe for the convertible notes ("CN2014-1") with an aggregate principal amount of HK$6,000,000 maturing in 12 months from the date of issue at 1% annual coupon rate, which may be converted into 60,000,000 shares at the conversion price of HK$0.10 per Share (subject to adjustment). On the same day, the Company also entered into another subscription agreement with another subscriber pursuant to which the Company has agreed to issue, and the subscriber has agreed to subscribe for the convertible notes ("CN2014-2") with an aggregate principal amount of HK$5,000,000 maturing in 12 months from the date of issue at 1% annual coupon rate, which may be converted into 50,000,000 shares at the conversion price of HK$0.10 per share (subject to adjustment).

Furthermore, on 10 December 2013, the Company entered into a subscription agreement with a subscriber pursuant to which the Company has agreed to issue, and the subscriber has agreed to subscribe for the convertible notes ("CN2014-3") with an aggregate principal amount of HK$10,000,000 maturing in 12 months from the date of issue at 1% annual coupon rate, which may be converted into 100,000,000 shares at the conversion price of HK$0.10 per Share (subject to adjustment). On the same day, the Company also entered into another subscription agreement with another subscriber pursuant to which the Company has agreed to issue, and the subscriber has agreed to subscribe for the convertible notes ("CN2014-4") with an aggregate principal amount of HK$4,234,400 maturing in 12 months from the date of issue at 1% annual coupon rate, which may be converted into 42,344,000 shares at the conversion price of HK$0.10 per share (subject to adjustment).

On 19 December 2013, the conversion rights attaching to CN2014-3 and CN2014-4 have been exercised in full and hence 142,344,000 shares have been issued.

As at 31 December 2013, the aggregate outstanding principal amount of the Convertible Notes 2014 was HK$11,000,000. The exercise in full of the vested conversion rights would result in the issue and allotment of 110,000,000 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 2013, 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

During the year ended 31 December 2013, no significant Investments were made by the Group (2012: Major transactions on the acquisition of 100% shareholding interest in Everjoy Technology Development Corporation and Everjoy International Media Corporation (Everjoy))

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 2013 (2012: nil).

OPERATIONAL OVERVIEW

The Group is principally engaged in the provision of an internet platform for the faciliation 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 no less favourable than those under the Joint Construction Agreement. This e-learning business remained the core business of the Group in 2013.

In an attempt to expand its income stream and diversify its business spectrum, the Company has acquired the entire share capital of Everjoy Technology Development Corporation and Everjoy International Media Corporation ("Everjoy") in 2012. The completion of this acquisition was done in December 2012, however it did not make significant contribution to the performance in 2012. The businesses of Everjoy started to record revenue in the second quarter of 2013 and the performance of Everjoy was unsatisfactory to the Group. The profit made by Everjoy during the first six months in the year 2013 was far below the expectation of the Board of the Company. It is also expected that the profit of Everjoy will not be greatly improved unless substantial resources are allocated thereto.

In view of the above, it is decided to dispose of Everjoy and to devote resources to its existing business and any other potential businesses, if any. On 31 October 2013 (after trading hours), the Company entered into the an agreement with the purchaser pursuant to which the Company has agreed to sell, and the purchaser has agreed to purchase, the entire share capital of Everjoy Technology Development Corporation and Everjoy International Media Corporation at the consideration, which was determined based on the fair values of Everjoy assessed by the independent professional valuer jointly appointed by the parties to the agreement.

On 27 February 2014, Roma Appraisals Limited, being an independent professional valuer jointly appointed by the parties to the agreement, issued its reports on the fair values of Everjoy. Thus, the considerations for the disposal of Everjoy at RMB20,600,000 (equivalent to approximately HK$26,368,000) has been fixed. The completion of the disposal took place on 12 March 2014.

Employee Information

As at 31 December 2013, the Group had a total of 32 employees (2012: 43 employees) (including executive directors). For the year under review, the total staff costs amounted to approximately HK$17,116,000 (2012: HK$13,755,000), representing an increase of approximately HK$3,361,000 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.

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.

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

EXTRACT FROM INDEPENDENT AUDITOR'S REPORT

The Company's auditor has included the following opinion in their report on the Group's consolidated financial statements for the year ended 31 December 2013.

Basis for qualified opinion

As explained in Note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of HK$86,082,000 for the year ended 31 December 2013 and, as of that date, the Group's had net current liabilities and net liabilities of HK$3,444,000 and HK$93,848,000 respectively. Notwithstanding the cash proceeds of HK$29,952,000 received by the Group in March 2014, the Group would still require additional amount of cash flow from operation and/or financing in the forthcoming year to support the future operation of the Company, there 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 2013, 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.

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 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 who was appointed on 7 February 2014), Dr. Huang Chung Hsing and Ms. Li Ra Yu Nancy (appointed on 19 November 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 2013 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 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 2013, with the exception of deviation set out below.

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.

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
Yuan Wei
Executive Director

Hong Kong, 26 March 2014

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

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.