
THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this Prospectus or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers.

A copy of the Prospectus Documents (as defined herein), having attached thereto the written consent referred to under the paragraph headed “Expert and Consent” in Appendix IV to this Prospectus has been registered with the Registrar of Companies in Hong Kong pursuant to section 342C of the Companies Ordinance. The SFC (as defined herein) and the Registrar of Companies in Hong Kong take no responsibility as to the contents of any of the documents referred to above.

If you have sold or transferred all your Shares in CHINA E-LEARNING GROUP LIMITED (the “Company”), you should at once hand this Prospectus, together with the accompanying Application Form and EAF, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Subject to the granting of the listing of, and permission to deal in, the Offer Shares on GEM (as defined herein) as well as compliance with the stock admission requirements of HKSCC (as defined herein), the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS (as defined herein) with effect from the respective commencement date of dealings in the Offer Shares or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.



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)

**OPEN OFFER ON THE BASIS OF SEVEN OFFER SHARES
FOR EVERY TWENTY SHARES HELD ON THE RECORD DATE
WITH BONUS ISSUE ON THE BASIS OF TWO BONUS SHARES
FOR EVERY ONE OFFER SHARE TAKEN UP**

Financial Advisor to China E-Learning Group Limited



KINGSTON CORPORATE FINANCE LIMITED

Underwriter to the Open Offer



KINGSTON SECURITIES LIMITED

Terms used in this cover page have the same meanings as defined in this prospectus.

THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The Latest Time for Acceptance of and payment for the Offer Shares is 4:00 p.m. on Thursday 27 May 2010.

The Underwriting Agreement contains provisions granting Kingston Securities, by notice in writing, the right to terminate Kingston Securities' obligations thereunder on the occurrence of certain events. Kingston Securities may terminate the Underwriting Agreement on or before the Latest Time for Termination if prior to the Latest Time for Termination: (1) in the absolute opinion of Kingston Securities, the success of the Open Offer would be materially and adversely affected by: (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of Kingston Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of Kingston Securities materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of Kingston Securities is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or (3) there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of Kingston Securities will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or (4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or (5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or (6) any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of Kingston Securities, a material omission in the context of the Open Offer; or (7) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement, or the Prospectus Documents or other announcements or circulars in connection with the Open Offer, Kingston Securities shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

Kingston Securities shall be entitled by notice in writing to rescind the Underwriting Agreement if prior to the Latest Time for Termination: (1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of Kingston Securities; or (2) any event coming to the knowledge of Kingston Securities which would have rendered any untrue or incorrect in any material respect.

Any such notice shall be served by Kingston Securities prior to the Latest Time for Termination and thereupon the obligations of all parties under the Underwriting Agreement shall terminate and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

If the Underwriting Agreement is terminated by Kingston Securities on or before the aforesaid deadline or does not become unconditional, the Open Offer will not proceed.

The Shares have been dealt in on an ex-entitlement basis from Monday, 3 May 2010 and the Open Offer is conditional. If the conditions of the Open Offer are not satisfied by the relevant date(s) or, if no such date is specified, the Latest Time for Termination or such later date or dates as Kingston Securities may agree with the Company in writing, or the Underwriting Agreement is terminated by Kingston Securities, the Open Offer will not proceed and will lapse. Any persons contemplating buying or selling Shares from the date of the Announcement up to the date on which all the conditions of the Open Offer bear the risk that the Open Offer may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares are recommended to consult their own professional advisors.

12 May 2010

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a high 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

	<i>Page</i>
EXPECTED TIMETABLE	iii
DEFINITIONS	1
LETTER FROM THE BOARD	6
1. Introduction	6
2. Open Offer with Bonus Issue	7
3. The Information of the Group	22
4. EGM	22
5. Additional Information	22
APPENDIX I — FINANCIAL INFORMATION OF THE GROUP	23
APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP	92
APPENDIX III — SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANY LAW	96
APPENDIX IV — GENERAL INFORMATION	121

EXPECTED TIMETABLE

The expected timetable for the Open Offer is set out below:

Record Date	Tuesday, 11 May 2010
EGM	Tuesday, 11 May 2010
Announcement of results of the EGM to be published on the Stock Exchange website	Tuesday, 11 May 2010
Register of members of the Company re-opens	Wednesday, 12 May 2010
Despatch of the Prospectus Documents	Wednesday, 12 May 2010
Latest time for acceptance of and payment for Offer Shares	4:00 p.m. on Thursday, 27 May 2010
Latest time for the Open Offer (with the Bonus Issue) to become unconditional	4:00 p.m. on Monday, 31 May 2010
Announcement of results of acceptance of the Open Offer (with Bonus Issue) to be published on the Stock Exchange website	Thursday, 3 June 2010
Despatch of refund cheques in respect of wholly or partially unsuccessful applications for excess Offer Shares on or before	Thursday, 3 June 2010
Despatch of the share certificates for the Offer Shares and Bonus Shares	Thursday, 3 June 2010
Commencement of dealings in Offer Shares and Bonus Shares	Monday, 7 June 2010

All times stated above refer to Hong Kong times. Dates or deadlines specified in this prospectus are indicative only and may be extended or varied by agreement between the Company and the Underwriter. Any changes to the expected timetable for the Open Offer will be published or notified to Shareholders as and when appropriate.

EXPECTED TIMETABLE

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR OFFER SHARES

The latest time for acceptance of and payment for Offer Shares will not take place if there is:

- (a) a tropical cyclone warning signal number 8 or above, or
- (b) a “black” rainstorm warning
 - (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on Thursday, 27 May 2010. Instead the latest time of acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same Business Day;
 - (ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Thursday, 27 May 2010. Instead the latest time of acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Offer Shares does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected timetable” may be affected. An announcement will be made by the Company in such event as soon as practicable.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“Announcement”	the announcement of the Company dated 30 March 2010 relating to, among other things, the Open Offer (with the Bonus Issue), Capitalisation Article Amendment and Capital Increase
“Application Form”	the form of application for use by the Qualifying Shareholders to apply for the Offer Shares (with Bonus Shares)
“Articles”	the articles of association of the Company
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of directors of the Company
“Bonus Issue”	the issue of the Bonus Shares pursuant to the terms and conditions to be set out in the Prospectus Documents
“Bonus Shares”	in respect of the Open Offer, the Bonus Shares to be issued (for no additional payment) to the first registered holders of Offer Shares on the basis of two (2) Bonus Shares for every one (1) Offer Share taken up under the Open Offer subject to the terms and conditions as set out in the Prospectus Documents
“Business Day”	a day (other than a Saturday, Sunday or public holidays) on which banks are open for general banking business in Hong Kong
“Capital Increase”	the proposed increase in authorised share capital of the Company from HK\$1,000,000,000 divided into 2,000,000,000 Shares to HK\$5,000,000,000 divided into 10,000,000,000 Shares
“Capitalisation Article Amendment”	the proposed amendment to be made to the Articles to allow the allotment and issue of the Bonus Shares which are not in proportion to the shareholding of the Shareholders
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong (as amended from time to time)
“Company”	China E-Learning Group Limited (stock code: 8055), an exempted company incorporated in the Cayman Islands with limited liability and the issued securities of which are listed on the GEM Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Convertible Notes”	Convertible Note (A) and Convertible Note (B)
“Convertible Note (A)”	convertible notes in the outstanding principal amount of HK\$126,200,000 carrying rights to convert into 128,775,510 Shares at the conversion price of HK\$0.98 per Share (subject to adjustment)
“Convertible Note (B)”	convertible notes in the outstanding principal amount of HK\$26,525,066 carrying rights to convert into 16,894,946 Shares at the conversion price of HK\$1.57 per Share (subject to adjustment)
“Director(s)”	director(s) of the Company
“EAF”	form of application for excess Offer Shares
“EGM”	the extraordinary general meeting of the Company for approving, inter alia, the Open Offer (with the Bonus Issue) and Capital Increase
“Excluded Shareholder(s)”	the Overseas Shareholders on the Record Date which the Directors, after making enquiries, consider it necessary or expedient on account either of legal restriction under the laws of the relevant place of the requirements of the relevant regulatory body or stock exchange in that place not to offer the Offer Shares (with Bonus Shares) to such Shareholders
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	has the meaning as defined in the GEM Listing Rules
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholder(s)”	the Shareholder(s), other than the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates, who are not involved in, nor interested in, the Underwriting Agreement
“Independent Third Party(ies)”	independent third party(ies) who is (are) not connected person(s) of the Company as defined in the GEM Listing Rules and is(are) independent of the Company and connected persons of the Company
“Kingston Securities” or “Underwriter”	Kingston Securities Limited, a licensed corporation to carry out business in type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Last Trading Day”	30 March 2010, being date of the Underwriting Agreement, which is a Stock Exchange trading day
“Latest Lodging Date”	being 4:30 p.m. on 4 May 2010 or such other date and/or time as the Underwriter and the Company may agree as the latest time for lodging transfer of Shares in order to be qualified for the Open Offer
“Latest Practicable Date”	7 May 2010, being the latest practicable date prior to the printing of this Prospectus for inclusion of certain information in this Prospectus
“Latest Time for Acceptance”	being 4:00 p.m. on 27 May 2010 or such other date and/or time as may be agreed between the Underwriter and the Company, being the latest time for acceptance of, and payment for, the Offer Shares (with Bonus Shares) as described in the Prospectus
“Latest Time for Termination”	4:00 p.m. on the second Business Day after the Latest Time for Acceptance or such later time or date as may be agreed between the Underwriter and the Company, being the latest time to terminate this Agreement
“Offer Shares”	222,661,915 Shares to be offered to the Qualifying Shareholders for subscription on the basis of seven (7) Offer Shares for twenty (20) Shares held on the Record Date pursuant to the Open Offer
“Open Offer”	the issue of the Offer Shares (with Bonus Shares) by way of open offer to the Qualifying Shareholders for subscription pursuant to the terms and conditions set out in the Prospectus Documents

DEFINITIONS

“Options”	the options issued or to be issued under the Share Option Scheme
“Overseas Shareholders”	the Shareholders whose address on the register of members of the Company are outside Hong Kong
“PRC”	the People’s Republic of China which, for the purpose of this Prospectus, excludes Hong Kong, Macau and Taiwan
“Posting Date”	12 May 2010 or such later day as may be agreed between the Company and the Underwriter for despatch of the Prospectus Documents
“Prospectus”	this prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Documents”	this Prospectus, the Application Form and the EAF
“Qualifying Shareholders”	the Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date, other than the Excluded Shareholders
“Record Date”	11 May 2010 or such other dates as may be agreed between the Company and the Underwriter for the determination of the entitlements under the Open Offer
“RMB”	Renminbi, the lawful currency of the PRC
“Registrar”	Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, being the Company’s Hong Kong branch share registrar
“SFC”	the Securities and Futures Commission of Hong Kong
“Share(s)”	the ordinary share(s) of HK\$0.50 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Share Option Scheme”	the share option scheme adopted by the Company on 24 November 2001
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.50 per Offer Share
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated 30 March 2010 entered into by the Underwriter and the Company
“Underwritten Shares”	222,661,915 Offer Shares (with Bonus Shares) underwritten by the Underwriter
“Untaken Shares”	those (if any) of the Shares for which duly completed Application Forms (accompanied by cheques or banker’s cashier order for the full amount payable on application which are honoured on first or, at the option of the Company, subsequent presentation) have not been lodged for acceptance, or received, as the case may be, on or before Latest Time for Acceptance which shall be not more than 222,661,915 Offer Shares (with Bonus Shares)
%	per cent.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Chen Hong (*Chairman*)
Ms. Wang Hui
Ms. Wei Jianya

Independent Non-executive Directors:

Dr. Wong Yun Kuen
Ms. Chan Hoi Ling
Dr. Huang Chung Hsing

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business

in Hong Kong:
Unit 3306, 33rd Floor
West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

12 May 2010

To the Qualifying Shareholders

Dear Sirs or Madams,

**OPEN OFFER ON THE BASIS OF SEVEN OFFER SHARES
FOR EVERY TWENTY SHARES HELD ON THE RECORD DATE
WITH BONUS ISSUE ON THE BASIS OF TWO BONUS SHARES
FOR EVERY ONE OFFER SHARE TAKEN UP**

1. INTRODUCTION

Reference is made to the Announcement in relation to the proposed Open Offer (with the Bonus Issue), Capitalisation Article Amendment and Capital Increase. The Company proposes the following:

LETTER FROM THE BOARD

- (a) raising approximately HK\$111.3 million, before expenses, by way of an open offer of 222,661,915 Offer Shares at the Subscription Price of HK\$0.50 per Offer Share on the basis of seven (7) Offer Shares for every twenty (20) Shares held by the Qualifying Shareholders on the Record Date and payable in full on acceptance and subject to the satisfaction of the conditions of the Open Offer. The Bonus Shares will be issued to the first registered holders of the Offer Shares on the basis of two (2) Bonus Shares for every one (1) Offer Share taken up under the Open Offer;
- (b) amending to Article 147 of the Articles to allow the allotment and issue of the Bonus Shares which are not in proportion to the shareholding of the Shareholders by way of capitalisation of the share premium account of the Company; and
- (c) increase of the authorised share capital of the Company from HK\$1,000,000,000 divided into 2,000,000,000 Shares of HK\$0.50 each to HK\$5,000,000,000 divided into 10,000,000,000 Shares of HK\$0.50 each.

The purpose of this Prospectus is to provide you with further information regarding, among other things, the details of the Open Offer (with the Bonus Issue) including information on procedures for application and payment and certain financial information and other information in respect of the Group.

The resolutions in respect of the Capital Increase and the Open Offer were duly passed at the EGM. The Capitalization Article Amendment was duly passed at another extraordinary general meeting of the Company.

2. OPEN OFFER WITH BONUS ISSUE

The Company and the Underwriter entered into the Underwriting Agreement on 30 March 2010 in respect of the Open Offer (with the Bonus Issue). Details of the Open Offer (with the Bonus Issue) are set out below:

ISSUE STATISTICS

Basis of the Open Offer:	Seven (7) Offer Shares for every twenty (20) Shares (on the basis of the whole multiple) held on the Record Date and payable in full on acceptance, together with two (2) Bonus Shares for every one (1) Offer Share taken up
Subscription Price:	HK\$0.50 per Offer Share
Number of Shares in issue as at the Record Date:	636,176,919 Shares
Number of Offer Shares:	222,661,915 Offer Shares

LETTER FROM THE BOARD

Number of Bonus Shares: 445,323,830 Bonus Shares to be issued to the first registered holders of the Offer Shares on the basis of two (2) Bonus Shares for every one (1) Offer Share taken up under the Open Offer

Total Number of Shares in issue upon completion of the Open Offer and the Bonus Issue: 1,304,162,664 Shares

Number of Offer Shares underwritten by the Underwriter: 222,661,915 Offer Shares being the number of the aggregate Offer Shares

As at the Latest Practicable Date, the Company has the following outstanding options and convertible securities:

1. Options for subscription of 47,498,000 Shares;
2. Convertible Note (A); and
3. Convertible Note (B).

Save as aforesaid, the Company does not have other options, warrants, convertible notes or other convertible securities as at the Latest Practicable Date.

Bonus Issue

Subject to the satisfaction of the conditions of the Open Offer, the Bonus Shares will be issued to the first registered holders of the Offer Shares on the basis of two (2) Bonus Shares for every one (1) Offer Share taken up under the Open Offer.

On the basis of 222,661,915 Offer Shares to be issued under the Open Offer, 445,323,830 Bonus Shares will be issued.

The total number of Offer Shares and Bonus Shares of 667,985,745 Shares represents:

- (i) approximately 106.36% of the Company's existing issued share capital as at the date of the Announcement;
- (ii) approximately 105.00% of the Company's existing issued share capital as at the Latest Practicable Date; and
- (iii) approximately 51.22% of the Company's issued share capital as enlarged by the issue of the Offer Shares and Bonus Shares.

LETTER FROM THE BOARD

Subscription Price

The Subscription Price of HK\$0.500 per Offer Share is payable in full on application. The Subscription Price represents:

- (i) a discount of approximately 13.79% to the closing price of HK\$0.580 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 8.42% to the average closing price of HK\$0.546 per Share for last five consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 3.95% to the average closing price of HK\$0.481 per Share for last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 35.87% to the theoretical ex-entitlement price of HK\$0.368 per Share after the Open Offer and the Bonus Issue, based on the closing price of HK\$0.580 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (v) a premium of approximately 32.98% to the audited consolidated net liability value per Share of approximately HK\$0.376 as at 31 December 2009 (based on 628,013,654 Shares in issue as at the Last Trading Day); and
- (vi) a premium of approximately 38.89% to the closing price of HK\$0.360 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Since two Bonus Shares will be issued upon subscription of one Offer Share, for illustration purpose, the average price for each Share to be allotted and issued under the Open Offer (together with the Bonus Issue) is HK0.167 which represents:

- (i) a discount of approximately 71.21% to the closing price of HK\$0.580 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 69.41% to the average closing price of HK\$0.546 per Share for last five consecutive trading days up to and including the Last Trading Day;
- (iii) a discount of approximately 65.28% to the average closing price of HK\$0.481 per Share for last ten consecutive trading days up to and including the Last Trading Day;
- (iv) a discount of approximately 55.59% to the audited consolidated net liability value per Share of approximately HK\$0.376 as at 31 December 2009 (based on 628,013,654 Shares in issue as at the Last Trading Day); and
- (v) a discount of approximately 53.61% to the closing price of HK\$0.360 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM THE BOARD

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the prevailing market price of the Shares and the recent market conditions and the financial requirements of the Group.

The Directors consider that the Subscription Price would encourage Shareholders to participate in the Open Offer and accordingly maintain their shareholdings in the Company and participate in the future growth of the Group. In view of the prevailing market conditions of the capital market in Hong Kong and the benefits of the Open Offer and the Bonus Issue, the Directors (including the independent non-executive Directors) consider that the terms of the Open Offer and the Bonus Issue are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions of the Open Offer

The Open Offer (with the Bonus Issue) is conditional upon the following:

- a. the Company despatching the circular to the Shareholders containing, among other matters, details of the Open Offer together with proxy form and notice of EGM;
- b. the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong in accordance with the Companies Ordinance respectively one copy of each of the Prospectus Documents duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached thereto) and otherwise in compliance with the GEM Listing Rules and the Companies Ordinance not later than the Posting Date;
- c. the posting of the Prospectus Documents to the Qualifying Shareholders on or before the Posting Date;
- d. the GEM Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares and the Bonus Shares by no later than the first day of their dealings;
- e. the Underwriting Agreement not being terminated or rescinded by the Underwriter pursuant to the terms thereof on or before the Latest Time for Termination;
- f. the passing of the necessary resolution(s) by the Shareholders (where applicable, the Independent Shareholders) at the extraordinary general meetings of the Company to approve each of the (i) Capitalisation Article Amendment; (ii) Capital Increase; (iii) the Open Offer; (iv) the issue and allotment of the Bonus Shares and the transactions contemplated thereunder; and
- g. compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement.

LETTER FROM THE BOARD

The above conditions precedents are incapable of being waived. If any of the above conditions is not satisfied at or prior to the respective time stipulated therein, the Underwriting Agreement shall be terminated accordingly and none of the parties shall have any claim against the other save that all such reasonable costs, fees and other out-of-pocket expenses (excluding sub-underwriting fees and related expenses) as have been properly incurred by the Underwriter in connection with the Open Offer shall to the extent agreed by the Company be borne by the Company, and the Open Offer and Bonus Issue will not proceed.

Status of the Offer Shares and the Bonus Shares

The Offer Shares and the Bonus Shares (when allotted and issued fully paid or credited as fully paid) will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares and the Bonus Shares. Holders of the Offer Shares and the Bonus Shares will be entitled to receive all future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Offer Shares and the Bonus Shares.

As at the Latest Practicable Date, the Directors have not received any information from any substantial Shareholders of their intention to take up the Offer Shares (with the Bonus Shares) to be offered to them.

Qualifying Shareholders

The Open Offer is only available to the Qualifying Shareholders. Qualifying Shareholders will only be entitled to the Open Offer on the basis of Seven (7) Offer Shares for every twenty (20) Shares held on the Record Date (on the basis of the whole multiple). For the avoidance of doubt, the Qualifying Shareholders are not entitled to any Offer Share for Shares which is not an integral multiple of twenty (20) Shares. The Company will send the Prospectus Documents to the Qualifying Shareholders on the Posting Date.

To qualify for the Open Offer, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date, and not being an Excluded Shareholder. In order to be registered members of the Company on the Record Date, Shareholders must lodge any transfer of Shares (together with the relevant share certificate(s)) with the Company's branch share registrar, Tricor Tengis Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. (Hong Kong time) on Tuesday, 4 May 2010.

Closure of register of members

The register of members of the Company in Hong Kong was closed from Wednesday, 5 May 2010 to Tuesday, 11 May 2010, both dates inclusive, to determine the eligibility of the Shareholders to the Open Offer. No transfer of Shares was registered during this period.

LETTER FROM THE BOARD

No transfer of nil-paid entitlements

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable. There will not be any trading in nil-paid entitlements on the GEM.

Rights of Excluded Shareholders

The Prospectus Documents will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong.

Having made the enquiries, the Board confirmed that the Company had no Overseas Shareholder as at the close of business on the Record Date. Therefore, all Shareholders are eligible to take part in the Open Offer (with the Bonus issue).

Fractions of Offer Shares

The Company will not allot and issue fractions of Offer Shares to the Qualifying Shareholders. Such fractional Offer Shares, if any, will be added together and sold in the market by the Company. The proceeds of which will be kept for the Company's own benefit.

Certificates of the Offer Shares and the Bonus Shares

Subject to fulfilment of the conditions of the Open Offer as set out in the section headed "Conditions of the Open Offer" above, share certificates for all fully paid Offer Shares and the Bonus Shares are expected to be posted on or before 3 June 2010 to those Qualifying Shareholders who have accepted and paid for the Offer Shares by ordinary post at their own risk.

Each Qualifying Shareholder who has applied and paid for the Offer Shares and the excess Offer Shares will receive one share certificate for all entitlements to the Offer Shares, the excess Offer Shares and the Bonus Shares in fully paid form issued in his/her/its favour.

Refund cheques in respect of wholly or partly unsuccessful applications for excess Offer Shares are also expected to be posted to the excess applicants on or before 3 June 2010 at their own risks.

LETTER FROM THE BOARD

Application for listing

The Company has applied to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares and the Bonus Shares. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Subject to the granting of listing of, and permission to deal in, the Offer Shares and Bonus Shares on the Stock Exchange, the Offer Shares and Bonus Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares and Bonus Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

PROCEDURE FOR APPLICATION

Application for Offer Shares

The Application Form is enclosed with the Prospectus which entitles the Qualifying Shareholders to whom it is addressed to apply for the number of Offer Shares as shown therein subject to payment in full by the Latest Time for Acceptance. Qualifying Shareholders should note that they may apply for any number of Offer Shares only up to the number set out in the Application Form.

If Qualifying Shareholders wish to apply for all the Offer Shares offered to them as specified in the Application Form or wish to apply for any number less than their entitlements under the Open Offer, they must complete, sign and lodge the Application Form in accordance with the instructions printed thereon, together with remittance for the full amount payable in respect of such number of Offer Shares they have applied for with Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Thursday, 27 May 2010. All remittance(s) must be made in Hong Kong dollars and cheques must be drawn on an account with, or bankers' cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "China E-Learning Group Limited — Open Offer Account" and crossed "Account Payee Only".

It should be noted that unless the duly completed and signed Application Form, together with the appropriate remittance, have been lodged with, Company's branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Thursday, 27 May 2010, the entitlements of the respective Qualifying Shareholders under the Open Offer and all rights in relation thereto shall be deemed to have been declined and will be cancelled.

LETTER FROM THE BOARD

Application for excess Offer Shares

Qualifying Shareholders may apply, by way of excess application, for any Offer Shares entitled by the Qualifying Shareholders but not validly applied for by them, any Offer Shares arising from the aggregation of fractional entitlements, if any, and any.

The Directors will allocate the excess Offer Shares on a fair and equitable basis, on a pro-rata basis to the excess Offer Shares applied for by the Qualifying Shareholders. However, no preference will be given to topping-up odd lots to whole board lots.

Shareholders or potential investors should note that the number of excess Offer Shares which may be allocated to them may be different where they make applications for excess Offer Shares by different means, such as making applications on their own names rather than through nominees who also hold Shares for other Shareholders/investors. Shareholders and investors should consult their professional advisors if they are in any doubt as to whether they should register their shareholding in their own names and apply for the excess Offer Shares themselves.

Qualifying Shareholders may apply (using forms of EAF) for any Offer Shares not taken up by the Qualifying Shareholders during the offer period commencing from Wednesday, 12 May 2010 to Thursday, 27 May 2010. Any Offer Shares that are not taken up by Qualifying Shareholders will be underwritten by the Underwriter pursuant to the Underwriting Agreement.

Application for excess Offer Shares should be made by completing the EAF enclosed with the Prospectus and lodging the same with a separate remittance for the full amount payable in respect of the excess Offer Shares being applied for in accordance with the instructions printed thereon, with Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Thursday, 27 May 2010. All remittances must be made in Hong Kong dollars and cheques must be drawn on an account with, or banker's cashier orders must be issued by, licensed banks in Hong Kong and made payable to "China E-Learning Group Limited — Excess Application Account" and crossed "Account Payee Only". The share registrar of the Company and transfer office will notify the Qualifying Shareholders of any allotment of the excess Offer Shares made to them.

It should be noted that unless the duly completed and signed EAF, together with the appropriate remittance, have been lodged with the Company's branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Thursday, 27 May 2010, the EAF is liable to be rejected.

All cheques or banker's cashier orders will be presented for payment immediately following receipt and all interest earned on such application monies will be retained for the benefit of the Company. Any Application Form or EAF in respect of which the cheque or banker's cashier order is dishonoured on first presentation is liable to be rejected, and in that event the relevant entitlements of the Qualifying Shareholders under the Open Offer (with the Bonus Issue) will be deemed to have been declined and will be cancelled.

LETTER FROM THE BOARD

In the event that applications are received for the Offer Shares in excess of assured entitlements, the Directors will allocate the Offer Shares in excess of assured entitlements at their discretion, but on a fair and reasonable basis based on the principles as stated in the above.

Both Application Form and EAF are for the use by the person(s) named therein only and are not transferable.

If the Underwriter exercises its right to terminate its obligations under the Underwriting Agreement before the Latest Time for Termination and/or if any of the conditions to which the Open Offer is subject are not fulfilled, the application monies will be refunded, without interest, by sending cheques made out to the applicants (or in the case of joint applicants, to the first named applicant) and crossed "Account Payee Only", through ordinary post at the risk of the applicants to the address specified in the register of members of the Company on or before 3 June 2010.

No receipt will be issued in respect of any application monies received.

UNDERWRITING AGREEMENT

Date:	30 March 2010 (after trading hours)
Underwriter:	Kingston Securities
Basis of the Open Offer:	Seven (7) Offer Shares for every twenty (20) Shares held on the Record Date and payable in full on acceptance, together with two (2) Bonus Shares for every one (1) Offer Share taken up
Subscription Price:	HK\$0.50 per Offer Share
Total number of Offer Shares being underwritten by the Underwriter:	The Underwriter has agreed to fully underwrite not less than 219,804,774 Underwritten Shares and not more than 290,270,876 Underwritten Shares
Commission:	2.5% of the aggregate Subscription Price in respect of the maximum number of Underwritten Shares

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Kingston Securities and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons.

Special conditions of the Underwriter's underwriting obligations

In the event of the Underwriter being called upon to subscribe for or procure subscribers for the Underwritten Shares not taken up, the Underwriter shall not subscribe, for its own account, for such number of Underwritten Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed

LETTER FROM THE BOARD

19.9% of the voting rights of the Company upon the completion of the Open Offer; and the Underwriter shall use all reasonable endeavours to ensure that each of the subscribers or purchasers of the Underwritten Shares procured by it or by the sub-underwriters (i) shall be third party independent of, not acting in concert (with the meaning of the Takeovers Code) with and not connected with the Company, any of the Directors, chief executive of the Company or substantial Shareholders or their respective associates; and (ii) shall not, together with any party acting in concert (with the meaning of the Takeovers Code) with it, hold 10.0% or more of the voting rights of the Company upon completion of the Open Offer.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination (provided that for the purposes of the Underwriting Agreement if the date of the Latest Time for Termination shall be a Business Day on which a tropical cyclone warning signal no. 8 or above or a black rainstorm warning signal is or remains hoisted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day, the date of the Latest Time for Termination shall be the next Business Day on which no tropical cyclone warning signal no. 8 or above or no black rainstorm warning signal is or remains hosted in Hong Kong between 9:00 a.m. and 4:00 p.m. on that day):

1. in the absolute opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:
 - a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or
 - b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the absolute opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or
2. any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the absolute opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

LETTER FROM THE BOARD

3. there is any change in the circumstances of the Company or any member of the Group which in the absolute opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or
4. any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
5. any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not ejusdem generis with any of the foregoing; or
6. any matter which, had it arisen or been discovered immediately before the date of the Prospectus and not having been disclosed in the Prospectus, would have constituted, in the absolute opinion of the Underwriter, a material omission in the context of the Open Offer; or
7. any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive Business Days, excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Open Offer,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

WARNING OF THE RISK OF DEALING IN SHARES

The Shareholders and potential investors of the Company should note that the Open Offer (with the Bonus Issue) is conditional upon the Underwriting Agreement having become unconditional and the Underwriter not having terminated the Underwriting Agreement in accordance with the terms thereof (a summary of which is set out in the paragraph headed "Termination of the Underwriting Agreement" above). Accordingly, the Open Offer may or may not proceed.

The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealings in the Shares, and if they are in any doubt about their positions, they should consult their professional advisors.

The Shareholders should note that the Shares have been dealt in on an ex-entitlement basis commencing from Monday, 3 May 2010 and that dealings in Shares will take place while the conditions to which the Underwriting Agreement is subject to remain unfulfilled. Any Shareholder or other person dealings in the Shares up to the date on which all conditions to which the Open Offer is subject to are fulfilled, will accordingly bear the risk that the Open Offer (with the Bonus Issue) may not become unconditional and may not proceed.

LETTER FROM THE BOARD

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY ARISING FROM THE OPEN OFFER (WITH THE BONUS ISSUE)

The existing and enlarged shareholding structures of the Company immediately before and after the completion of the Open Offer (with the Bonus Issue) are set out below for illustration purpose only:

	As at the Latest Practicable Date		Immediately after completion of the Open Offer (with the Bonus Issue) (assuming all Offer Shares are subscribed for by the Qualifying Shareholders)		Immediately after completion of the Open Offer (with the Bonus Issue) (assuming NO Offer Shares are subscribed for by the Qualifying Shareholders) (Note 2)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Mr. Chen Hong (Note 1)	38,785,600	6.10%	79,510,480	6.10%	38,785,600	2.97%
Mr. Yang Dong Jun	65,768,008	10.34%	134,824,408	10.34%	65,768,008	5.04%
Mr. Huang Qun	64,539,526	10.14%	132,306,022	10.14%	64,539,526	4.95%
Public Shareholders						
Underwriter	—	—	—	—	667,985,745	51.22%
Other public Shareholders	467,083,785	73.42%	957,521,754	73.42%	467,083,785	35.82%
Total:	636,176,919	100.00	1,304,162,664	100.00	1,304,162,664	100.00

Notes:

- 1) Mr. Chen Hong, Ms. Wang Hui, and Ms. Wei Jianya are executive Directors.
- 2) This scenario is for illustrative purpose only and will never occur. Pursuant to the Underwriting Agreement, in the event of the Underwriter being called upon to subscribe for or procure subscribers to subscribe for any of the Untaken Shares:
 - a) the Underwriter shall not subscribe, for its own account, for such number of Untaken Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 19.90% of the voting rights of the Company upon completion of the Open Offer, and
 - b) the Underwriter shall use all reasonable endeavours to ensure that each of the subscribers for the Untaken Shares (i) shall be third party independent of, not acting in concert (within the meanings of the Takeovers Code) with and not connected with the Company, any of the Directors, chief executive of the Company or substantial Shareholders (as defined in the GEM Listing Rules) or any of their respective associates; and (ii) shall not, together with any party acting in concert (within the meaning of the Takeover Code) with it, hold 10% or more of the voting rights of the Company upon completion of the Open Offer.

LETTER FROM THE BOARD

PREVIOUS FUND RAISING EXERCISE IN THE PRIOR 12-MONTH PERIOD

Save as disclosed below, the Company has not conducted any fund raising activities in the past twelve months before the date of the Announcement:

Nature of Transaction	Date of initial announcement	Net Proceeds	Intended use of net proceeds as announced	Actual use of net proceeds
Top-up placing and placing of new Shares	20 July 2009	Approximately HK\$15.8 million from the placing of new Shares and approximately HK\$33.35 million from the top-up placing	general working capital of the Group	used as to approximately HK\$22.5 million for redemption of convertible notes and retained the remaining balance of approximately HK\$26.65 million as general working capital of the Group

USE OF PROCEEDS

The gross proceeds from the Open Offer will be approximately HK\$111.3 million. After deducting the expenses under the Open Offer of approximately HK\$4.5 million, the estimated net proceeds from the Open Offer will be approximately HK\$106.8 million. The net proceeds from the Open Offer will be used for repayment of debts including convertible notes and for general working capital of the Company.

REASONS FOR AND BENEFIT OF THE OPEN OFFER

Having considered other possibilities or alternatives for fund raising options for the Group, such as bank borrowings and placing of new Shares, and taking into account the benefits and cost of the viable options, the Board considers that the Open Offer (with Bonus Issue) is conducted in the best interest of the Company in view of the prevailing market conditions and in particular the financial situation and fund requirement of the Group.

The Open Offer allows the Group to significantly strengthen its financial position. The Board considers that the Open Offer (with the Bonus Issue) are in the best interests of the Company and the Shareholders as a whole as they offer all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enable the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so. The Bonus Issue will give the Shareholders an incentive to take part in the Open Offer.

LETTER FROM THE BOARD

RISK FACTORS

The Company sets out below the risk factors of the Group for the Shareholders' and prospective investors' attention. The Directors believe that there are certain risks involved in the Group's operations, which include:

1. risks relating to the Group's going concern;
2. risks relating to the Group's business; and
3. risks relating to the Group's normal course of business.

Risks relating to the Group's going concern

The Group has a net liability of HK\$236,306,000 as at 31 December 2009. Due to the significance of the fundamental uncertainty relating to the going concern basis, the Company's auditors do not express an opinion on the financial statements of the Company for the year ended 31 December 2009 as to whether they give a true and fair view of the state of the Group's affairs as at year end date.

In the opinion of the Directors, the Group is able to maintain itself as a going concern by taking into consideration the arrangements which include, among others, (i) to reduce the overheads and costs, (ii) to explore opportunities for exiting business with an aim to attain profitable operations, (iii) to scale down the non-profitable operations and (iv) to enlarge the capital base of the Company in order to provide additional funding to the Group such as the Open Offer. However, it cannot be guaranteed that the Group can successfully implement the said arrangements to eliminate the existing net liabilities and therefore the Group's going concern is uncertain.

Risks relating to the Group's business

The Joint Construction of Network Education College of Beijing University of Chinese Medicine Agreement ("Joint Construction Agreement") entered into between Beijing University of Chinese Medicine and Hunan IIN Medical Network Technology Development Co., Ltd., a subsidiary of the Company, on 29 July 2000 will expire on 1 August 2010. In accordance with the Joint Construction Agreement, Hunan IIN Medical is entitled to share 60% of the profits of Distance Education College of Beijing University of Chinese Medicine ("Distance Education College"). For the year ended 31 December 2009, Distance Education College generated a revenue of approximately RMB30,265,000 (equivalent to approximately HK\$34,307,000) and net profit of approximately RMB16,189,000 (equivalent to approximately HK\$18,361,000). Although the Directors expect that the Joint Construction Agreement will be renewed with profit sharing percentage no less than 51% and other terms and conditions thereunder no less favourable than those under the Joint Construction Agreement, the success of such renewal cannot be guaranteed. Should the Company fail to renew the Joint Construction Agreement, it will have material adverse effect on the Group's future profit since the revenue from the said project represented 96% of the total revenue of the Group and it also contributed profit of approximately RMB4,626,000 (equivalent to approximately HK\$5,244,000) to the Group for the year ended 31 December 2009.

LETTER FROM THE BOARD

Risks relating to the Group's normal course of business

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business.

ADJUSTMENTS TO SHARE OPTIONS

As at the Latest Practicable Date, the Company has the following outstanding options and convertible securities:

1. Options for subscription of 47,498,000 Shares;
2. Convertible Note (A); and
3. Convertible Note (B).

Adjustments to the exercise prices and numbers of the outstanding Share Options may be required under the Share Option Scheme. An approved from independent financial advisor or the auditors of the Company will be appointed to certify the necessary adjustments, if any, to the exercise prices and numbers of the outstanding Share Options. Further announcement will be made by the Company in this regard.

GEM Listing Rules Implication on the Open Offer

The Underwriter and the Company are aware of the requirement of Rule 11.23 of the GEM Listing Rules which provides that at least 25% of an issuer's total share capital must at all times be held by the public. As set out in the paragraphs under the heading "Special conditions of the Underwriter's underwriting obligations" above, in the event of the Underwriter being called upon to subscribe for or procure subscribers for the Underwritten Shares not taken up, the Underwriter shall not subscribe, for its own account, for such number of Underwritten Shares which will result in the shareholding of it and parties acting in concert (within the meaning of the Takeovers Code) with it in the Company to exceed 19.9% of the voting rights of the Company upon the completion of the Open Offer; and the Underwriter shall use all reasonable endeavours to ensure that each of the subscribers or purchasers of the Underwritten Shares procured by it or by the sub-underwriters (i) shall be third party independent of, not acting in concert (with the meaning of the Takeovers Code) with and not connected with the Company, any of the Directors, chief executive of the Company or substantial Shareholders or their respective associates; and (ii) shall not, together with any party acting in concert (with the meaning of the Takeovers Code) with it, hold 10.0% or more of the voting rights of the Company upon completion of the Open Offer (with the Bonus Issue).

LETTER FROM THE BOARD

3. THE INFORMATION OF THE GROUP

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

4. EGM

The EGM was held on Tuesday, 11 May 2010 at which resolutions in respect of the Open Offer (with the Bonus Issue) and Capital Increase have been duly passed. Details of the results of the EGM were published in the announcement of the Company dated 11 May 2010.

5. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this Prospectus.

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

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the audited consolidated financial results of the Group for each of the three years ended 31 December 2009 as extracted from the relevant annual reports of the Company.

(i) Results

	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	23,253	26,692	2,756
Cost of sales	(19,398)	(8,659)	(2,534)
Gross profit	3,855	18,033	222
Other income	3,192	161	174
Selling expenses	(2,159)	(2,157)	—
Administrative expenses	(43,290)	(46,368)	(2,739)
Impairment loss on goodwill	(326,115)	(321,483)	—
Impairment loss on other intangible assets	(33,060)	—	—
Other operating expense	—	—	(30)
Loss from operations	(397,577)	(351,814)	2,373
Finance costs, net	(78,059)	(12,589)	—
Loss before tax	(475,636)	(364,403)	(2,373)
Income tax credit (expense)	258	(1,459)	—
Loss for the year	<u>(475,378)</u>	<u>(365,862)</u>	<u>(2,373)</u>
Loss for the year attributable to:			
Owners of the Company	(479,757)	(365,862)	(2,373)
Non-controlling interests	<u>4,379</u>	<u>—</u>	<u>—</u>
	(475,378)	(365,862)	2,373
Loss per share			
— Basic	(129.45 cents)	(209.30 cents)	(1.21 cents)
— Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

(ii) Consolidated Balance Sheet

	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Goodwill	31,506	326,115	—
Other intangible assets	265	36,907	—
Owner-occupied leasehold interest in land	1,039	—	—
Property, plant and equipment	8,732	6,751	46
Financial derivative	316	64,455	—
Deposits	—	5,650	—
	<u>41,858</u>	<u>439,878</u>	<u>46</u>
CURRENT ASSETS			
Inventories	132	25	—
Trade and other receivables	14,848	12,478	13
Amount due from minority shareholder of a subsidiary	460	—	—
Owner-occupied leasehold interest in land	40	—	—
Tax recoverable	—	2,110	—
Bank balances and cash	37,218	2,636	22,567
	<u>52,698</u>	<u>17,249</u>	<u>22,580</u>
CURRENT LIABILITIES			
Trade and other payables	25,045	3,568	997
Tax payable	252	—	—
Amounts due to directors	116	251	80
	<u>25,413</u>	<u>3,819</u>	<u>1,077</u>
NET CURRENT ASSETS	<u>27,285</u>	<u>13,430</u>	<u>21,503</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>69,143</u>	<u>453,308</u>	<u>21,549</u>
CAPITAL AND RESERVES			
Share capital	236,282	141,382	25,364
Reserves	(476,356)	(78,579)	(3,815)
Non-controlling interests	3,768	—	—
TOTAL EQUITY	<u>(236,306)</u>	<u>62,803</u>	<u>21,549</u>
NON-CURRENT LIABILITIES			
Other loan	49,435	49,435	—
Financial derivative	1,640	—	—
Convertible loan notes	254,374	341,070	—
	<u>305,449</u>	<u>390,505</u>	<u>—</u>
	<u>69,143</u>	<u>453,308</u>	<u>21,549</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below are the audited consolidated financial statements of the Group for the two years ended 31 December 2009 which are extracted from the annual reports of the Group for the year ended 31 December 2009.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

		2009	2008
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	8	23,253	26,692
Cost of sales		(19,398)	(8,659)
Gross profit		3,855	18,033
Other income	9	3,192	161
Selling expenses		(2,159)	(2,157)
Administrative expenses		(43,290)	(46,368)
Impairment loss on goodwill	16	(326,115)	(321,483)
Impairment loss on other intangible assets	17	(33,060)	—
Loss from operations		(397,577)	(351,814)
Finance costs, net	10	(78,059)	(12,589)
Loss before tax	11	(475,636)	(364,403)
Income tax credit (expense)	13	258	(1,459)
Loss for the year		<u>(475,378)</u>	<u>(365,862)</u>
Dividend	14	—	—
Loss for the year		<u>(475,378)</u>	<u>(365,862)</u>
Loss for the year attributable to:			
Owners of the Company		(479,757)	(365,862)
Non-controlling interests		4,379	—
		<u>(475,378)</u>	<u>(365,862)</u>
Loss per share	15		
— Basic		(129.45 cents)	(209.30 cents)
			(restated)
— Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the year ended 31 December 2009*

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Loss for the year	(475,378)	(365,862)
Other comprehensive loss		
Exchange difference arising on translation of foreign operations	<u>600</u>	<u>3,454</u>
Total comprehensive loss for the year	<u>(474,778)</u>	<u>(362,408)</u>
Total comprehensive loss attributable to:		
Owners of the Company	(479,157)	(362,408)
Non-controlling interests	<u>4,379</u>	<u>—</u>
	<u>(474,778)</u>	<u>(362,408)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 31 December 2009*

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Goodwill	16	31,506	326,115
Other intangible assets	17	265	36,907
Owner-occupied leasehold interest in land	18	1,039	—
Property, plant and equipment	19	8,732	6,751
Financial derivative	31	316	64,455
Deposits		—	5,650
		<u>41,858</u>	<u>439,878</u>
CURRENT ASSETS			
Inventories	21	132	25
Trade and other receivables	22	14,848	12,478
Amount due from minority shareholder of a subsidiary	23	460	—
Owner-occupied leasehold interest in land	18	40	—
Tax recoverable		—	2,110
Bank balances and cash	24	37,218	2,636
		<u>52,698</u>	<u>17,249</u>
CURRENT LIABILITIES			
Trade and other payables	25	25,045	3,568
Tax payable		252	—
Amounts due to directors	26	116	251
		<u>25,413</u>	<u>3,819</u>
NET CURRENT ASSETS		<u>27,285</u>	<u>13,430</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>69,143</u></u>	<u><u>453,308</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)**At 31 December 2009*

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
CAPITAL AND RESERVES			
Share capital	28	236,282	141,382
Reserves	29	(476,356)	(78,579)
Non-controlling interests		3,768	—
TOTAL EQUITY		<u>(236,306)</u>	<u>62,803</u>
NON-CURRENT LIABILITIES			
Other loan	30	49,435	49,435
Financial derivative	31	1,640	—
Convertible loan notes	31	254,374	341,070
		<u>305,449</u>	<u>390,505</u>
		<u>69,143</u>	<u>453,308</u>

STATEMENT OF FINANCIAL POSITION*At 31 December 2009*

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	19	8	7
Investments in subsidiaries	20	1	326,127
Financial derivative	31	316	64,455
Deposits		—	5,650
		<u>325</u>	<u>396,239</u>
CURRENT ASSETS			
Trade and other receivables	22	1,139	931
Amounts due from subsidiaries	20	117,458	81,657
Bank balances and cash	24	23,000	18
		<u>141,597</u>	<u>82,606</u>
CURRENT LIABILITIES			
Trade and other payables	25	1,002	776
Amounts due to directors	26	116	250
Amounts due to subsidiaries	20	82,326	80,098
		<u>83,444</u>	<u>81,124</u>
NET CURRENT ASSETS		<u>58,153</u>	<u>1,482</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>58,478</u></u>	<u><u>397,721</u></u>
CAPITAL AND RESERVES			
Share capital	28	236,282	141,382
Reserves	29	(433,818)	(84,731)
TOTAL EQUITY		<u>(197,536)</u>	<u>56,651</u>
NON-CURRENT LIABILITIES			
Financial derivative	31	1,640	—
Convertible loan notes	31	254,374	341,070
		<u>256,014</u>	<u>341,070</u>
		<u><u>58,478</u></u>	<u><u>397,721</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31 December 2009*

		Share capital	Share premium	Share-based payment reserve	Capital reserve	Exchange reserve	Conversion note equity reserve	Accumulated losses	Non-controlling interests	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008		25,364	41,562	5	24,415	—	—	(69,797)	—	21,549
Loss for the year		—	—	—	—	—	—	(365,862)	—	(365,862)
Other comprehensive loss		—	—	—	—	3,454	—	—	—	3,454
Total comprehensive loss for the year		—	—	—	—	3,454	—	(365,862)	—	(362,408)
Issue of shares by placement	28	50,000	25,025	—	—	—	—	—	—	75,025
Issue of shares by conversion of convertible loan notes	28	66,000	66,000	—	—	—	—	—	—	132,000
Share issue expenses		—	(2,000)	—	—	—	—	—	—	(2,000)
Issue of shares by exercise of share options	28	18	18	(5)	—	—	—	—	—	31
Employee share option benefits	35	—	—	24,632	—	—	—	—	—	24,632
Equity component of convertible loan notes	31	—	—	—	—	—	285,987	—	—	285,987
Cancellation of convertible loan notes, at fair value	31	—	—	—	—	—	(59,580)	—	—	(59,580)
Conversion of convertible loan notes	31	—	—	—	—	—	(52,433)	—	—	(52,433)
At 31 December 2008 and 1 January 2009		141,382	130,605	24,632	24,415	3,454	173,974	(435,659)	—	62,803
Loss for the year		—	—	—	—	—	—	(479,757)	4,379	(475,378)
Other comprehensive loss		—	—	—	—	600	—	—	—	600
Total comprehensive loss for the year		—	—	—	—	600	—	(479,757)	4,379	(474,778)
Dividends paid to non-controlling interests of a subsidiary		—	—	—	—	—	—	—	(4,379)	(4,379)
Acquisition of subsidiaries	33	—	—	—	—	—	—	—	3,768	3,768
Issue of new shares by top-up placing	28	28,000	22,400	—	—	—	—	—	—	50,400
Issue of shares by conversion of convertible loan notes	28	66,900	77,320	—	—	—	(53,145)	—	—	91,075
Redemption of convertible loan notes	31	—	—	—	—	—	(7,944)	—	—	(7,944)
Share issue expenses	35	—	(1,181)	—	—	—	—	—	—	(1,181)
Employee share option benefits	35	—	—	18,851	—	—	—	—	—	18,851
Equity component of convertible loan notes	31	—	—	—	—	—	25,079	—	—	25,079
Forfeited reserves of subsidiary*		—	—	—	(24,415)	—	—	24,415	—	—
At 31 December 2009		236,282	229,144	43,483	—	4,054	137,964	(891,001)	3,768	(236,306)

* During the year, a subsidiary of the Group, named ProSticks BVI Limited, was deregistered and its capital reserve was transferred to accumulated losses.

CONSOLIDATED STATEMENT OF CASH FLOW*For the year ended 31 December 2009*

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
OPERATING ACTIVITIES			
Loss before tax		(475,636)	(364,403)
Adjustments for:			
Depreciation of property, plant and equipment		1,618	981
Interest income		(25)	(149)
Amortisation of other intangible assets		4,572	3,404
Amortisation of owner-occupied leasehold interest in land		45	—
Share-based payment expense		18,851	24,632
Fair value changes in financial derivative		42,839	(19,097)
Interest expenses on financial liabilities measured at amortised cost		35,220	31,686
Impairment loss on goodwill		326,115	321,483
Impairment loss on other intangible assets		33,060	—
Impairment loss on inventories		95	9
Impairment loss on trade receivables		916	—
Impairment loss on other receivables		757	468
Provision for amount due from minority shareholder of a subsidiary		209	—
Write-back of other receivables		(70)	—
Loss on disposal of property, plant and equipment		124	—
Gain on redemption of convertible loan notes		(1,982)	—
Operating cash flows before movements in working capital		(13,292)	(986)
Increase in inventories		(121)	(34)
Decrease (increase) in trade and other receivables		8,649	(4,880)
Increase in amount due from minority shareholder of a subsidiary		(669)	—
Increase (decrease) in trade and other payables		3,394	(839)
(Decrease) increase in amounts due to directors		(135)	171
CASH USED IN OPERATIONS		(2,174)	(6,568)
Income taxes paid		—	(3,569)
Income taxes refunded		2,620	—
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES		446	(10,137)

CONSOLIDATED STATEMENT OF CASH FLOW (Continued)*For the year ended 31 December 2009*

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,665)	(1,622)
Proceed from sales of property, plant and equipment		250	—
Interest received		25	149
Acquisition of subsidiaries	33	5,253	(74,444)
Acquisition of non-controlling interests of a subsidiary		(284)	—
Dividends paid to non-controlling interests of a subsidiary		(4,379)	—
Decrease in deposit		5,650	—
Deposit paid		—	(5,650)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		<u>4,850</u>	<u>(81,567)</u>
FINANCING ACTIVITIES			
Proceeds from issue of placing shares		50,400	75,025
Placing shares issue expenses		(1,181)	(2,000)
Proceeds from exercise of share option		—	31
Redemption of convertible loan notes		(20,000)	—
NET CASH GENERATED FROM FINANCING ACTIVITIES		<u>29,219</u>	<u>73,056</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>34,515</u>	<u>(18,648)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>2,636</u>	<u>22,567</u>
Effect of foreign exchange rate changes, net		<u>67</u>	<u>(1,283)</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		<u><u>37,218</u></u>	<u><u>2,636</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL

China E-Learning Group Limited (the “Company”) is incorporated as an exempted company in the Cayman Islands 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 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 financial statements are presented in Hong Kong dollars (“HK\$”). Other than those subsidiaries established in the People’s Republic of China (the “PRC”) whose functional currency is Renminbi (“RMB”), the functional currency of the Company and its subsidiaries are HK\$.

The Company is an investment holding company and the principal activities of its subsidiaries are set out in note 20 to the financial statements.

2. ADOPTION OF GOING CONCERN BASIS

The consolidated financial statements have been prepared on a going concern basis notwithstanding the Group had net liabilities of approximately HK\$236,306,000 as at 31 December 2009.

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 flow;
2. The directors of the Company are considering various alternatives to enlarge the capital base of the Company in order to provide additional funding to the Group;
3. The directors of the Company will continue to scale down the non-profitable operations; and

2. ADOPTION OF GOING CONCERN BASIS *(Continued)*

4. On 29 July 2000, Hunan IIN Medical Network Technology Development Co., Ltd. (湖南國訊醫藥網絡科技開發有限公司) (“Hunan IIN Medical”), a wholly-owned subsidiary of the Company acquired during the year ended 31 December 2009, entered into Joint Construction of Network Education College of Beijing University of Chinese Medicine Agreement (共建北京中醫藥大學網絡教育學院協議書) (“Joint Construction Agreement”) with Beijing University of Chinese Medicine (北京中醫藥大學) for operating 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”). Under the Joint Construction Agreement, Hunan IIN Medical is entitled to share 60% of Distance Education College’s net profit. For the year ended 31 December 2009, Distance Education College generated a revenue of approximately RMB30,265,000 (equivalent to approximately HK\$34,307,000) and net profit of approximately RMB16,189,000 (equivalent to approximately HK\$18,361,000). The Joint Construction Agreement will expire on 1 August 2010. The directors of the Company expect that the Joint Construction Agreement will be renewed with profit sharing percentage no less than 51% and other terms and conditions under the renewed agreement no less favourable than those under the existing agreement.

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.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following new and revised Standards, Amendments to Standards and Interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) — INT 13	Customer Loyalty Programmes
HK(IFRIC) — INT 15	Agreements for the Construction of Real Estate
HK(IFRIC) — INT 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs Issued in 2008, except for the amendments to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs Issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

The application of the above new and revised HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new and revised Standards, Amendments and Interpretations will have no material impact on the Group’s results and financial position.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Rights Issues ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ⁴
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁷
HK (IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK (IFRIC) — Int 17	Distributions of Non-cash Assets to Owners ¹
HK (IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁵

¹ Effective for annual periods beginning on or after 1 July 2009.

² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Effective for annual periods beginning on or after 1 February 2010.

⁵ Effective for annual periods beginning on or after 1 July 2010.

⁶ Effective for annual periods beginning on or after 1 January 2011.

⁷ Effective for annual periods beginning on or after 1 January 2013.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of the non-controlling interests' in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interests has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Goodwill**

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods and services, or for administrative purpose are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purpose, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the consolidated statement of comprehensive income. Any subsequent increases are credited to the consolidated statement of comprehensive income up to the amount previously charged and thereafter to property revaluation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at the end of each reporting date. The principal annual rates are as follows:

Building	5% or over the term of the leases
Leasehold improvements	20% or over the term of the leases
Plant and equipment	20%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Intangible assets** *(Continued)*

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to consolidated income statement in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at lower of cost and net realisable value. Cost is calculated using first in first out method.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated income statement.

Financial assets

The Group's financial assets are loans and receivable. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted is set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Financial instruments** *(Continued)**Financial assets (Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from minority shareholder of a subsidiary and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Financial instruments** *(Continued)**Financial liabilities and equity (Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to directors, financial derivative, convertible loan notes and other loan are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Equity instruments

Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in consolidated income statement. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

Owner-occupied leasehold interest in land

Interests in leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Convertible loan notes**

Convertible loan notes issued by the Company that contain the liability, conversion option and early redemption option are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

At the date of issue, both the liability and early redemption option components are measured at fair value. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability and early redemption option components respectively, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in consolidated income statement.

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible loan notes equity reserve until the embedded conversion option is exercised (in which case the balance stated in convertible loan notes equity reserve will be transferred to share premium). Where the conversion option remains unexercised at the expiry date, the balance stated in convertible loan notes equity reserve will be released to retained profits. No gain or loss is recognised in consolidated income statement upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability, equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and amortised over the period of the convertible loan notes using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligations, its carrying amount is the present value of those cash flow (where the effect is material).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Impairment losses (other than goodwill — see the accounting policies in respect of goodwill above)**

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in consolidated income statement, except when it relates to items that recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Tuition revenue from educational programs is recognised on a time-proportion basis, using the straight-line method, over the duration of the relevant educational programs.

Revenue from sales of educational materials and products is recognised when the products are delivered and title has passed to customers.

Interest income is recognised as it accrues using the effective interest method.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in consolidated income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income in the consolidated financial statements and will be reclassified from equity to consolidated income statement on disposal of foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in consolidated income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Foreign currencies** *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

Employee benefits*(i) Short term employee benefits and contributions to defined contribution retirement plans*

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the consolidated income statement as incurred. The assets of the scheme are held separately from those of the Group in an independent administered fund.

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees. A provision will be made for the estimated liability for annual leave and long service payments as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Share-based payments

The Group operates equity-settled share-based compensation scheme ("Scheme") to remunerate its employees.

For share options granted under the Scheme, the fair value of the employees' services rendered in exchange for the grant of the options is recognised as an expense immediately and credited to the share-based payment reserve under equity. Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting periods. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of the original estimates, if any, in the consolidated income statement, and a corresponding adjustment to the share-based payment reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Employee benefits** *(Continued)**(ii) Share-based payments (Continued)*

Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price over the nominal value of the shares is recorded by the Company in the share premium account. The equity amount is recognised in the share-based payment reserve until the option is exercised when it is transferred to the share premium account if the options lapse unexercised, the related share-based payment reserve is transferred directly to retained profits.

Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly, through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.
- (vii) close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Operating leases

Rentals payable under operating leases are charged to consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis. Contingent rentals, if any, are charged to consolidated income statement in the accounting period in which they are incurred.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Company assesses annually the residual value and the useful lives of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will affect the depreciation charges in the year in which the estimates change.

Impairment loss on trade and other receivables

Management regularly reviews the recoverability and age of the trade and other receivables. Appropriate impairment for estimated irrecoverable amounts is recognised in the consolidated income statement when there is objective evidence that the asset is impaired.

In determining whether impairment on trade and other receivables is required, the Company takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive of which discounted by using the original effective interest rate and its carrying value. If the financial conditions of customers of the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Valuation of share options granted

The fair value of share options granted was calculated using the Black-Scholes valuation model which requires the management's estimates and assumptions on significant calculation inputs, including the estimated life of share options granted, the volatility of share price and expected dividend yield. Change in the subjective input assumptions could materially affect the fair value estimate.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment loss of goodwill

Determining whether goodwill needs impairment requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flow are less than expected, a material impairment loss may arise.

As at 31 December 2009, the carrying amount of goodwill is HK\$31,506,000 (2008: HK\$326,115,000) after an impairment loss of HK\$326,115,000 (2008: HK\$321,483,000) was recognised during 2009. Details of the impairment loss calculation are disclosed in note 16 to the financial statements.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a regular basis. As a part of this review, the directors of the Company consider the cost of capital and the associated risks and take appropriate actions to adjust the Company's capital structure. The overall strategy of the Company remained unchanged during each of the two years ended 31 December 2009 and 2008.

7. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from minority shareholder of a subsidiary, bank balances and cash, trade and other payables, amounts due to directors, financial derivative, convertible loan notes and other loan. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

7. FINANCIAL INSTRUMENTS *(Continued)***a. Financial risk management objectives and policies** *(Continued)**Credit risk (Continued)*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group manages its exposure to credit risk through continual monitoring of the credit quality of its customers, taking into account their financial position, collection history, past experience and other relevant factors. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

Currency risk

The Group has transactional currency exposures, primarily with respect to Renminbi ("RMB"), for the years 2009 and 2008. Such exposures arise from online professional training and multimedia education products in currencies other than the Group's functional currency (i.e. Hong Kong dollar). All of the Group's sales are denominated in RMB for the years 2009 and 2008.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the Group to which they relate.

7. FINANCIAL INSTRUMENTS (Continued)

a. Financial risk management objectives and policies (Continued)

Currency risk (Continued)

	2009		2008	
	US\$	RMB	US\$	RMB
	'000	'000	'000	'000
Trade and other receivables	—	7,991	7	5,320
Bank balances and cash	—	12,504	—	296
Trade and other payables	—	(14,584)	—	(2,340)
Overall net exposure	—	5,911	7	3,276

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The Group conducts its business transactions principally in RMB. The exchange rate risk of the Group is not significant.

Liquidity risk

For the management of the Group’s liquidity risk, the Group monitors and maintains a sufficient level of cash and cash equivalents considered adequate by management to finance the Group’s operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

7. FINANCIAL INSTRUMENTS (Continued)

a. Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

	On demand or within one year HK\$'000	More than one year but less than two years HK\$'000	More than two years but less than five years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount HK\$'000
At 31 December 2009					
Financial liabilities					
Trade and other payables	25,045	—	—	25,045	25,045
Tax payable	252	—	—	252	252
Amounts due to directors	116	—	—	116	116
Other loan	—	49,435	—	49,435	49,435
Financial derivative	—	—	1,640	1,640	1,640
Convertible loan notes	—	—	254,374	254,374	254,374
	<u>25,413</u>	<u>49,435</u>	<u>256,014</u>	<u>330,862</u>	<u>330,862</u>
At 31 December 2008					
Financial liabilities					
Trade and other payables	3,568	—	—	3,568	3,568
Amounts due to directors	251	—	—	251	251
Other loan	—	49,435	—	49,435	49,435
Convertible loan notes	—	—	341,070	341,070	341,070
	<u>3,819</u>	<u>49,435</u>	<u>341,070</u>	<u>394,324</u>	<u>394,324</u>

b. Fair value

The directors consider that the fair value of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to the corresponding carrying amounts due to their short-term maturities.

7. FINANCIAL INSTRUMENTS *(Continued)*

c. Categories of financial instruments

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Financial assets		
Loans and receivables		
(including cash and cash equivalents)		
Financial derivative	316	64,455
Trade and other receivables		
(excluding prepayments)	12,348	11,184
Amount due from minority shareholder of		
a subsidiary	460	—
Tax recoverable	—	2,110
Bank balances and cash	37,218	2,636
	<u>50,342</u>	<u>80,385</u>
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables		
(excluding receipts in advance		
and trade deposit received)	23,895	3,518
Amounts due to directors	116	251
Other loan	49,435	49,435
Financial derivative	1,640	—
Convertible loan notes	254,374	341,070
	<u>329,460</u>	<u>394,274</u>

8. TURNOVER

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Tuition fee revenue	23,239	26,615
Sales of educational products	14	—
Operational software application products	—	77
	<u>23,253</u>	<u>26,692</u>

8. TURNOVER (Continued)**Business segments**

Over 90% of the Group's revenue, results, assets and liabilities are derived from the provision of occupational education, industry certification course, skills training and education consultation, no detailed analysis of the Group's operating segments is disclosed.

Geographical segments

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

9. OTHER INCOME

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Exchange gain	65	—
Interest income	25	149
Sundry income	145	12
Gain on redemption of convertible loan notes	1,982	—
Rental income	975	—
	<u>3,192</u>	<u>161</u>

10. FINANCE COSTS, NET

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Interest expenses on financial liabilities measured at amortised cost (<i>note 31</i>)	35,220	31,686
Fair value changes on financial derivative (<i>note 31</i>)	42,839	(19,097)
	<u>78,059</u>	<u>12,589</u>

11. LOSS BEFORE TAX

	2009 HK\$'000	2008 HK\$'000
Loss before tax has been arrived at after charging (crediting):		
Staff costs (including directors' emoluments (<i>note 12</i>))		
— basic salaries and allowances	8,904	8,226
— contributions to defined contribution plans	43	27
— share-based payment expense (<i>note 35</i>)	18,851	24,632
— miscellaneous	50	100
Total staff costs	27,848	32,985
Auditors' remuneration	300	300
Depreciation of property, plant and equipment		
— included in cost of sales	1,002	487
— included in selling expenses	11	3
— included in administrative expenses	605	491
	1,618	981
Amortisation of other intangible assets	4,572	3,404
Amortisation of owner-occupied leasehold interest in land	45	—
Impairment loss on goodwill	326,115	321,483
Impairment loss on other intangible assets	33,060	—
Impairment loss on inventories	95	9
Impairment loss on trade receivables	916	—
Impairment loss on other receivables	757	468
Loss on disposal of property, plant and equipment	124	—
Research and development costs	—	18
Operating leases charges In respect of:		
— premises	5,236	4,035
— others	167	69
	5,403	4,104
Interest expenses on financial liabilities		
— measured at amortised cost	35,220	31,686
Fair value changes on financial derivative	42,839	(19,097)
Exchange (gain) loss	(65)	9
Interest income	(25)	(149)
Gain on redemption of convertible loan notes	(1,982)	—

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

a. Directors' emoluments

Details of emoluments paid by the Group to the directors during the year are as follows:

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Share-based payment <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended					
31 December 2009					
Executive Directors					
Mr. Chen Hong	—	1,065	—	1,279	2,344
Ms. Liang Juan (<i>note i</i>)	—	230	—	1,616	1,846
Ms. Wang Hui	—	800	—	1,347	2,147
Ms. Wei Jianya	—	300	—	404	704
Mr. Li Xiangjun (<i>note ii</i>)	—	133	—	1,750	1,883

Independent Non-Executive**Directors**

Ms. Chan Hoi Ling	60	—	—	—	60
Dr. Wong Yun Kuen	60	—	—	—	60
Dr. Huang Chung Hsing	60	—	—	—	60
	<u>180</u>	<u>2,528</u>	<u>—</u>	<u>6,396</u>	<u>9,104</u>

For the year ended**31 December 2008****Executive Directors**

Mr. Chen Hong (<i>note iii</i>)	—	750	—	2,412	3,162
Ms. Liang Juan (<i>note i</i>)	—	450	—	508	958
Ms. Wang Hui (<i>note iv</i>)	—	378	—	2,285	2,663
Ms. Wei Jianya (<i>note v</i>)	—	83	—	1,016	1,099
Mr. Li Xiangjun (<i>note ii</i>)	—	83	—	1,777	1,860
Ms. Tsang Wing Yee (<i>note vi</i>)	—	—	—	—	—
Ms. Chan Siu Mun (<i>note vi</i>)	—	—	—	—	—
Mr. Chan Chi Yuen (<i>note vii</i>)	44	—	—	—	44

Independent Non-Executive**Directors**

Ms. Chan Hoi Ling	60	—	—	—	60
Dr. Wong Yun Kuen	60	—	—	—	60
Dr. Huang Chung Hsing (<i>note viii</i>)	<u>23</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>23</u>
	<u>187</u>	<u>1,744</u>	<u>—</u>	<u>7,998</u>	<u>9,929</u>

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)***a. Directors' emolument** *(Continued)*

Notes:

- i) Ms. Liang Juan was appointed on 1 April 2008 and resigned on 18 May 2009.
- ii) Mr. Li Xiangjun was appointed on 22 September 2008 and resigned on 11 June 2009.
- iii) Mr. Chen Hong was appointed on 1 April 2008.
- iv) Ms. Wang Hui was appointed on 10 July 2008.
- v) Ms. Wei Jianya was appointed on 22 September 2008.
- vi) The directors were resigned on 1 April 2008.
- vii) Mr. Chan Chi Yuen was resigned on 22 September 2008.
- viii) Dr. Huang Chung Hsing was appointed on 14 August 2008.

In 2009, the amounts of share-based payments were measured according to the Group's accounting policies for share-based payment transactions as set out in note 4 to the financial statements. Particulars of share options to the directors under the Company's share option scheme are set out in note 35 to the financial statements.

None of the directors of the Company waived or agreed to waive any emoluments paid by the Company and no incentive payment for joining the Company or compensation for loss of office was paid or payable to any director of the Company during the two years ended 31 December 2009 and 2008.

b. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2008: three) were directors of the Company, whose emoluments are included in the disclosures in note a above. The emoluments of the remaining two (2008: two) individuals were as follows:

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,194	613
Retirement scheme contributions	24	16
Share-based payment	1,077	508
	<u>2,295</u>	<u>1,137</u>

Their emoluments were within the following band:

	Number of individuals	
	2009	2008
HK\$Nil to HK\$1,000,000	—	2
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>—</u>

13. INCOME TAX (CREDIT) EXPENSE

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Current taxation:		
— The PRC	252	1,459
Over-provision in prior year:		
— The PRC	(510)	—
Income tax (credit) expense	<u>(258)</u>	<u>1,459</u>

No provision for Hong Kong profits tax has been made in the financial statements as the Group's income neither arose in, nor was derived from Hong Kong for the year (2008: Nil).

Taxation arising in the PRC is calculated at the rates prevailing in the relevant jurisdiction.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No.63 issued by the Tenth National Peoples Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the Enterprise Income Tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008.

For the year ended 31 December 2009, the domestic income tax rate of 25% represents the PRC Foreign Enterprise Income Tax of which the Group's operations are substantially based.

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

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Loss before tax	<u>(475,636)</u>	<u>(364,403)</u>
Tax at respective applicable tax rates	(82,110)	(59,738)
Tax effect of expenses not deductible for tax purposes	80,863	60,974
Tax effect of income not taxable for tax purposes	(1,200)	(20)
Tax effect of tax losses not recognised	3,332	242
Tax effect of exemption granted to non-profit making institute	(633)	—
Over-provision in prior year	(510)	—
Tax effect of exemption granted to subsidiaries	—	1
Income tax (credit) expense for the year	<u>(258)</u>	<u>1,459</u>

14. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period (2008: Nil).

15. 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\$479,757,000 (2008: HK\$365,862,000), and based on the weighted average number of shares in issue during the year of approximately 370,591,000 ordinary shares (2008: approximately 174,798,000 ordinary shares, restated as the share consolidation effective from 17 December 2009 set out in note 28(g) to the financial statements), as adjusted to reflect the issue of new shares and issue of shares by conversion of convertible loan notes during the year.

Weighted average number of ordinary shares for the purpose of basic loss per share:

	2009	2008
Number of shares	'000	'000
		(restated)
Issued ordinary shares at 1 January	282,764	50,728
Effect of issue of new shares (<i>note 28</i>)	22,915	90,411
Effect of exercise of share options (<i>note 28</i>)	—	10
Issue of share by conversion of convertible loan notes (<i>note 28</i>)	64,912	33,649
	<u>370,591</u>	<u>174,798</u>
Weighted average number of ordinary shares	<u>370,591</u>	<u>174,798</u>

The weighted average number of ordinary shares for the year ended 31 December 2008 was adjusted retrospectively due to share consolidation in 2009.

As the share options and conversion shares outstanding during the years 2009 and 2008 were anti-dilutive to the Group's loss per share, diluted loss per share were not adjusted in this respect for the years 2009 and 2008.

16. GOODWILL

	THE GROUP <i>HK\$'000</i>
COST	
At 1 January 2008	—
Acquisition of subsidiaries during the year	647,598
	<hr/>
At 31 December 2008 and 1 January 2009	647,598
Acquisition of subsidiaries during the year (<i>note (a)</i>)	31,222
Acquisition of non-controlling interests of a subsidiary during the year (<i>note (b)</i>)	284
	<hr/>
At 31 December 2009	679,104
	<hr/> <hr/>
IMPAIRMENT	
At 1 January 2008	—
Impairment loss recognised during the year	(321,483)
	<hr/>
At 31 December 2008 and 1 January 2009	(321,483)
Impairment loss recognised during the year	(326,115)
	<hr/>
At 31 December 2009	(647,598)
	<hr/> <hr/>
CARRYING VALUE	
At 31 December 2009	31,506
	<hr/> <hr/>
At 31 December 2008	326,115
	<hr/> <hr/>

Note:

- (a) Goodwill arose on acquisition of subsidiaries, IIN Medical (BVI) Group Limited (“IIN Medical (BVI)”) and its subsidiaries on 23 April 2009.
- (b) 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.

16. GOODWILL (Continued)**Impairment testing of goodwill***a. Acquisition of New Beida Business StudyNet Group Limited (“New Beida”)*

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

b. Acquisition of IIN Medical (BVI)

During the year ended 31 December 2009, the Group has performed an impairment testing of goodwill arose on acquisition of IIN Medical (BVI) with reference to a valuation carried out by LCH, based on cash flow forecasts derived from the most recent financial budgets for the next five years with a discount rate of 16.25%, while the remaining forecast beyond that five-year period has been extrapolated with reference to an annual growth rate of 2.4%. In addition, the valuation has been performed on the basis that the directors of the Company expect that the Joint Construction Agreement will be renewed with terms and conditions no less favourable than those of the existing agreement. The directors of the Company are of the opinion, based on the business valuation, that there was no impairment on goodwill arose from the acquisition of IIN Medical (BVI) as at 31 December 2009.

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

17. OTHER INTANGIBLE ASSETS

	The Group <i>HK\$'000</i>
COST	
At 1 January 2008	—
Arising on acquisition of subsidiaries during the year	37,480
Exchange realignment	2,975
	<u>40,455</u>
At 31 December 2008 and 1 January 2009	40,455
Arising on acquisition of subsidiaries during the year	4,537
Exchange realignment	512
	<u>45,504</u>
At 31 December 2009	<u>45,504</u>
AMORTISATION AND IMPAIRMENT	
At 1 January 2008	—
Charge for the year	(3,404)
Exchange realignment	(144)
	<u>(3,548)</u>
At 31 December 2008 and 1 January 2009	(3,548)
Arising on acquisition of subsidiaries during the year	(4,008)
Charge for the year	(4,572)
Impairment loss recognised during the year	(33,060)
Exchange realignment	(51)
	<u>(45,239)</u>
At 31 December 2009	<u>(45,239)</u>
CARRYING VALUE	
At 31 December 2009	<u>265</u>
At 31 December 2008	<u>36,907</u>

The amortisation expense has been included in the administrative expenses in the consolidated income statement.

The above other intangible assets have definite useful lives. Such other intangible assets are amortised on a straight-line basis over ten years.

18. OWNER-OCCUPIED LEASEHOLD INTEREST IN LAND

The Group's owner-occupied leasehold interest in land comprises:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Medium-term leasehold land in PRC	<u>1,079</u>	<u>—</u>
Analysed for reporting purpose as:		
— current assets	40	—
— non-current assets	<u>1,039</u>	<u>—</u>
	<u>1,079</u>	<u>—</u>

19. PROPERTY, PLANT AND EQUIPMENT

a. THE GROUP

	Leasehold improvements <i>HK\$'000</i>	Building <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST							
At 1 January 2008	—	—	—	101	—	—	101
Additions	1,460	—	796	403	489	—	3,148
Acquired on acquisition of subsidiaries	—	—	1,867	583	—	1,757	4,207
Transfers	—	—	1,757	—	—	(1,757)	—
Exchange realignment	43	—	321	50	—	—	414
At 31 December 2008 and 1 January 2009	1,503	—	4,741	1,137	489	—	7,870
Additions	1,560	—	—	105	—	—	1,665
Acquired on acquisition of subsidiaries	—	1,427	5,228	2,467	—	—	9,122
Disposal	—	—	—	—	(489)	—	(489)
Exchange realignment	14	1	62	10	—	—	87
At 31 December 2009	3,077	1,428	10,031	3,719	—	—	18,255
DEPRECIATION AND IMPAIRMENT							
At 1 January 2008	—	—	—	55	—	—	55
Charge for the year	286	—	478	143	74	—	981
Acquired on acquisition of subsidiaries	—	—	—	49	—	—	49
Exchange realignment	8	—	20	6	—	—	34
At 31 December 2008 and 1 January 2009	294	—	498	253	74	—	1,119
Charge for the year	324	45	863	345	41	—	1,618
Acquired on acquisition of subsidiaries	—	303	4,705	1,878	—	—	6,886
Disposal	—	—	—	—	(115)	—	(115)
Exchange realignment	2	1	9	3	—	—	15
At 31 December 2009	620	349	6,075	2,479	—	—	9,523
CARRYING VALUE							
At 31 December 2009	2,457	1,079	3,956	1,240	—	—	8,732
At 31 December 2008	1,209	—	4,243	884	415	—	6,751

19. PROPERTY, PLANT AND EQUIPMENT (*Continued*)

b. THE COMPANY

	Furniture, fixtures and office equipment <i>HK\$'000</i>
COST	
At 1 January 2008	—
Additions	8
	<hr/>
At 31 December 2008 and 1 January 2009	8
Additions	3
	<hr/>
At 31 December 2009	11
	<hr/>
DEPRECIATION AND IMPAIRMENT	
At 1 January 2008	—
Charge for the year	1
	<hr/>
At 31 December 2008 and 1 January 2009	1
Charge for the year	2
	<hr/>
At 31 December 2009	3
	<hr/>
CARRYING VALUE	
At 31 December 2009	8
	<hr/> <hr/>
At 31 December 2008	7
	<hr/> <hr/>

20. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	800,012	800,012
Less: impairment loss on investment costs	(800,011)	(473,885)
	<hr/>	<hr/>
	1	326,127
	<hr/>	<hr/>
Amounts due from subsidiaries	117,458	81,657
Amounts due to subsidiaries	82,326	80,098
	<hr/> <hr/>	<hr/> <hr/>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amount due from/to subsidiaries approximate to their fair value.

20. INVESTMENTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries held by the Company as at 31 December 2009 are as follows:

Name of company	Place of incorporation/ registration/ operations	Issue and fully paid up share capital /registered capital	Proportion ownership interest held by the Company		Principal activities
			Directly	Indirectly	
iEngines Limited (note a)	Hong Kong	Ordinary shares HK\$5,000,000	100%	—	Inactive
HIS Photonic Systems Limited (note a)	Hong Kong	Ordinary shares HK\$1	100%	—	Inactive
Up High Investments Limited	British Virgin Islands (“BVI”)	Ordinary shares US\$1	100%	—	Inactive
Wise Gate Investments Limited	BVI	Ordinary shares US\$1	—	100%	Investment holding
China E-Learning (Hong Kong) Limited	Hong Kong	Ordinary shares HK\$1	100%	—	Provision of management services to group companies
Happy Victory Investments Limited (note b)	BVI	Ordinary shares US\$10	100%	—	Dormant
New Beida Business StudyNet Group Limited	BVI	Ordinary shares US\$10,000	100%	—	Investment holding
Best Boom Enterprises Limited	BVI	Ordinary shares US\$10	—	100%	Investment holding
Beijing Hua Tuo Education Technology Company Limited (note c)	PRC	Registered capital HK\$40,000,000	—	100%	Provision of occupational education, industry certification course, skills training and education consultation
Beijing Ke Xiong Education Company Limited (note c)	PRC	Registered capital RMB5,000,000	—	100%	Provision of occupational education, industry certification course, skills training and education consultation

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

20. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ registration/ operations	Issue and fully paid up share capital /registered capital	Proportion ownership interest held by the Company		Principal activities
			Directly	Indirectly	
Beijing Yi You Xing Service and Technology Development Company Limited (note c)	PRC	Registered capital RMB2,000,000	—	100%	Provision of occupational education, industry certification course, skills training and education consultation
IIN Medical (BVI) Group Limited	BVI	Ordinary shares HK\$13,677,288	—	100%	Investment holding
IIN Medical Group Limited	Hong Kong	Ordinary shares HK\$3,000,000	—	100%	Investment holding
Hunan IIN Medical Network Technology Development Company Limited (note c)	PRC	Registered capital RMB14,530,808	—	100%	Investment holding
Distance Education College of Beijing University of Chinese Medicine	PRC	Registered capital RMB900,000	—	60%	Provision of distance learning program in Chinese medicine

Notes:

- a. These subsidiaries were deregistered on 5 February 2010.
- b. This subsidiary was established by the Group during the year.
- c. These are wholly-foreign owned enterprises established in the PRC.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

21. INVENTORIES

	The Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Inventories, at cost	236	34
Less: impairment loss	(104)	(9)
	<u>132</u>	<u>25</u>

Inventories are stated at the lower of cost and net realisable value.

22. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	916	585	—	—
Less: impairment loss on trade receivables	(916)	—	—	—
	<u>—</u>	<u>585</u>	<u>—</u>	<u>—</u>
Deposits and other receivables	13,524	11,067	1	—
Less: impairment loss on other receivables	(1,176)	(468)	—	—
Prepayments	2,500	1,294	1,138	931
	<u>14,848</u>	<u>12,478</u>	<u>1,139</u>	<u>931</u>

22. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	The Group		The Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	—	6	—	—
31 to 60 days	—	—	—	—
61 to 90 days	—	14	—	—
Over 90 days	—	565	—	—
	<u>—</u>	<u>585</u>	<u>—</u>	<u>—</u>

General credit term that the Group offers to customers is 30 days from billing.

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		The Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	—	—	—	—
Impairment of trade receivables	<u>916</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December	<u>916</u>	<u>—</u>	<u>—</u>	<u>—</u>

22. TRADE AND OTHER RECEIVABLES (Continued)

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

	The Group		The Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	468	—	—	—
Impairment of other receivables	757	468	—	—
Amount written-back	(70)	—	—	—
Exchange realignment	21	—	—	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December	<u>1,176</u>	<u>468</u>	<u>—</u>	<u>—</u>

Included in the trade and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2009	2008	2009	2008
United States dollars (US\$'000)	—	7	—	—
Renminbi (RMB'000)	<u>7,991</u>	<u>5,320</u>	<u>—</u>	<u>—</u>

23. AMOUNT DUE FROM MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount is unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the fair value of the amount due from minority shareholder of a subsidiary approximates to its corresponding carrying amount.

24. BANK BALANCES AND CASH

	The Group		The Company	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank balances	37,189	2,587	22,995	—
Cash balances	<u>29</u>	<u>49</u>	<u>5</u>	<u>18</u>
Cash and cash equivalents				
in the consolidated statement				
of cash flow	<u>37,218</u>	<u>2,636</u>	<u>23,000</u>	<u>18</u>

24. BANK BALANCES AND CASH *(Continued)*

Included in the cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2009	2008	2009	2008
Renminbi (RMB'000)	<u>12,504</u>	<u>296</u>	<u>—</u>	<u>—</u>

25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	1,179	1,109	—	—
Other payables	20,666	1,203	100	—
Trade deposit received	—	50	—	—
Receipt in advance	1,150	—	—	—
Accrued charges	<u>2,050</u>	<u>1,206</u>	<u>902</u>	<u>776</u>
	<u>25,045</u>	<u>3,568</u>	<u>1,002</u>	<u>776</u>

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

	The Group		The Company	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	—	447	—	—
31 to 60 days	—	488	—	—
61 to 90 days	—	152	—	—
Over 90 days	<u>1,179</u>	<u>22</u>	<u>—</u>	<u>—</u>
	<u>1,179</u>	<u>1,109</u>	<u>—</u>	<u>—</u>

25. TRADE AND OTHER PAYABLES *(Continued)*

Included in the trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2009	2008	2009	2008
Renminbi (RMB'000)	<u>14,584</u>	<u>2,340</u>	<u>—</u>	<u>—</u>

26. AMOUNTS DUE TO DIRECTORS**The Group and the Company**

The amounts are unsecured, interest-free and repayable on demand. In the opinion of the directors of the Company, the fair value of the amounts due to directors approximates to its corresponding carrying amount.

27. DEFERRED TAXATION**(a) The Group**

The components of deferred tax (assets) liabilities recognised in the consolidated statement of financial position and the movements during the years are as follows:

	Accelerated tax depreciation	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	<u>8</u>	<u>(8)</u>	<u>—</u>

At the end of the reporting date, the Group had estimated the unused tax losses of approximately HK\$76,221,000 (2008: HK\$50,017,000) available for offset against future profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

(b) The Company

At the end of the reporting date, the Company had unused tax losses of approximately HK\$73,856,000 (2008: HK\$47,657,000) available for offset against future profits. No deferred tax assets have been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

28. SHARE CAPITAL

The Group and the Company

	<i>Notes</i>	Number of shares	Share capital <i>HK\$'000</i>
Authorised:			
Ordinary shares of HK\$0.1 each at 1 January 2008		800,000,000	80,000
Increase in authorised share capital	<i>a</i>	9,200,000,000	920,000
At 31 December 2008 and 1 January 2009		10,000,000,000	1,000,000
Share consolidation	<i>g</i>	(8,000,000,000)	—
Ordinary shares of HK\$0.5 each at 31 December 2009		2,000,000,000	1,000,000
Issued and fully paid:			
Ordinary shares of HK\$0.1 each at 1 January 2008		253,641,850	25,364
Issue of shares by placement	<i>b</i>	500,000,000	50,000
Issue of shares by exercise of share options	<i>c</i>	177,625	18
Issue of shares by conversion of convertible loan notes	<i>d</i>	660,000,000	66,000
Ordinary shares of HK\$0.1 each at 31 December 2008 and 1 January 2009		1,413,819,475	141,382
Issue of new shares by top-up placement	<i>e</i>	280,000,000	28,000
Issue of shares by conversion of convertible loan notes	<i>f</i>	669,000,000	66,900
Ordinary shares of HK\$0.1 each		2,362,819,475	236,282
Share consolidation	<i>g</i>	(1,890,255,580)	—
Ordinary shares of HK\$0.5 each at 31 December 2009		472,563,895	236,282

28. SHARE CAPITAL (Continued)**The Group and the Company (Continued)***Notes:*

- (a) Pursuant to the extraordinary general meeting held on 14 February 2008, the authorised share capital of the Company was increased from HK\$80,000,000 divided into 800,000,000 shares to HK\$1,000,000,000 divided into 10,000,000,000 shares by the creation of additional 9,200,000,000 shares.
- (b) On 5 February 2008, the placing of new shares was completed and 500,000,000 new shares were issued and allotted at placing price of HK\$0.15 per share. The gross proceeds from placing of new shares before issue expenses amounted to approximately HK\$73 million. Details of the placing are set out in the Company's announcement and circular dated 24 October 2007 and 1 November 2007 respectively.
- (c) On 22 September 2008, share options were exercised to subscribe for 177,625 ordinary shares of the Company at a total consideration of approximately HK\$31,000 of which approximately HK\$18,000 were credited to share capital, approximately HK\$5,000 were debited to share-based payment reserve and the balance of approximately HK\$18,000 were credited to the share premium account.
- (d) During the year ended 31 December 2008, convertible loan notes in the principal amount of HK\$132,000,000 were converted by holders to subscribe for 660,000,000 shares at a conversion price of HK\$0.2 per share..
- (e) On 20 July 2009, pursuant to the top-up placing and subscription agreement, 280,000,000 new shares were issued at the subscription price of HK\$0.18 per share. The gross proceeds from placing of new shares before issue expenses amounted to approximately HK\$50,400,000. Details of the placing are set out in the Company's announcements dated 3 August 2009 and 5 August 2009.
- (f) During the year ended 31 December 2009, convertible loan notes in the principal amount of HK\$133,800,000 were converted by holders to subscribe for 669,000,000 shares at a conversion price of HK\$0.2 per share.
- (g) Pursuant to a resolution passed on 16 December 2009, with effect from 17 December 2009, every five issued and unissued shares HK\$0.10 each in the share capital of the Company will be consolidated into one consolidated share of HK\$0.50 each.

29. RESERVES**(a) The Group**

The amounts of the Group's reserves and movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 30 of the annual report.

29. RESERVES (Continued)**(b) The Company**

		Share	Share-based	Conversion	Accumulated	Total
		premium	payment	note equity	losses	
	Notes	HK\$'000	reserve	reserve	HK\$'000	HK\$'000
At 1 January 2008		41,562	5	—	(45,456)	(3,889)
Total comprehensive loss						
for the year		—	—	—	(368,486)	(368,486)
Issue of shares by placement	28	25,025	—	—	—	25,025
Issue of shares by conversion						
of convertible loan notes	31	66,000	—	—	—	66,000
Share issue expenses		(2,000)	—	—	—	(2,000)
Issue of shares by exercise						
of share options	35	18	(5)	—	—	13
Employee share option benefits	35	—	24,632	—	—	24,632
Equity component						
of convertible loan notes	31	—	—	285,987	—	285,987
Cancellation of						
convertible loan notes,						
at fair value	31	—	—	(59,580)	—	(59,580)
Conversion of						
convertible loan notes	31	—	—	(52,433)	—	(52,433)
At 31 December 2008						
and 1 January 2009		130,605	24,632	173,974	(413,942)	(84,731)
Total comprehensive loss						
for the year		—	—	—	(430,467)	(430,467)
Issue of new shares						
by top-up placement	28	22,400	—	—	—	22,400
Issue of shares by conversion						
of convertible loan notes	31	77,320	—	(53,145)	—	24,175
Share issue expenses		(1,181)	—	—	—	(1,181)
Employee share option benefits	35	—	18,851	—	—	18,851
Equity component						
of convertible loan notes	31	—	—	25,079	—	25,079
Redemption of						
convertible loan notes	31	—	—	(7,944)	—	(7,944)
At 31 December 2009		<u>229,144</u>	<u>43,483</u>	<u>137,964</u>	<u>(844,409)</u>	<u>(433,818)</u>

29. RESERVES *(Continued)***(b) The Company** *(Continued)*

The capital reserve of the Group represents the excess of the nominal value of the share capital and the share premium account of the subsidiaries acquired pursuant to the Group reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

Pursuant to the Companies Law of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business. At 31 December 2009, in the opinion of the directors of the Company, the Company did not have any reserve available for distribution to shareholders (2008: Nil).

The share-based payment reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 35 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

30. OTHER LOAN

The amount represents an amount due to the former shareholder of New Beida which is unsecured, interest-free and is repayable on 30 June 2012. In the opinion of the directors of the Company, the fair value of other loan approximates to its carrying amount.

31. CONVERTIBLE LOAN NOTES**The Group and the Company****Acquisition of 100% interest in New Beida**

On 27 February 2008, pursuant to the acquisition of 100% interest in New Beida from Sino Tactic Group Limited (the "Vendor"), the Company issued zero coupon convertible loan notes (the "Convertible Loan Notes 2008") as partial settlement of the acquisition consideration.

The principal terms of the Convertible Loan Notes 2008 are as follows:

Date of issue	27 February 2008
Aggregate principal amount	HK\$720,000,000
Denomination in multiple of	HK\$20,000,000
Interest rate	Nil
Adjusted conversion price (previously reported)	HK\$0.98 (HK\$0.20)
Maturity date	36 months from the date of issue

31. CONVERTIBLE LOAN NOTES *(Continued)***The Group and the Company** *(Continued)**(a) Conversion period*

Apart from the portion of Restricted Convertible Notes (as described below), the holders of the Convertible Loan Notes 2008 shall have the rights at any time and from time to time, following the date of issue of the Convertible Loan Notes 2008, to convert the whole or any part of the outstanding principal amount into new ordinary shares in the Company. The shares to be issued and allotted upon conversion shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue.

(b) Restricted convertible loan notes

Part of the Convertible Loan Notes 2008 in principal amount of HK\$150 million (the “Restricted Convertible Notes”) was under security to the Company for the purpose of ensuring that the Profit Guarantee (as described below) is fulfilled.

(c) Issuer early redemption option

The Company shall have the right to redeem any portion of the Convertible Loan Notes 2008 outstanding at an amount equals to the principal amount of the Convertible Loan Notes 2008 in its sole and absolute discretion at any time prior to the maturity date.

The Convertible Loan Notes 2008 contain liability component, equity component and early redemption option derivatives. The issuer early redemption option derivative is not closely related to the host contract as the early redemption amount is not close to the amortised cost of the liability on the redemption date. Issuer early redemption option derivative are measured at fair value with change in fair value recognised in consolidated income statement.

(d) Profit guarantee

The Vendor undertakes to the Company that the aggregate profits after tax shown in the audited consolidated accounts of New Beida prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the financial year ended 31 December 2008 shall not be less than HK\$150 million and will compensate the Company for any shortfall between the guaranteed profits and the actual aggregate profits after tax shown in the audited consolidated accounts of New Beida prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the financial year ended 31 December 2008.

31. CONVERTIBLE LOAN NOTES *(Continued)***The Group and the Company** *(Continued)**(d) Profit guarantee (Continued)*

The Restricted Convertible Notes will be stake held by the Company for the purpose of ensuring the Profit Guarantee requirement is fulfilled according to the acquisition agreement entered into by the Company and the Vendor on 16 October 2007 while the Vendor undertakes not to exercise the conversion rights attaching on the Restricted Convertible Notes during the Profit Guarantee Period and up to 31 March 2009. In the event that the Restricted Convertible Notes under security to the Company is not sufficient to cover the compensation amount due to the shortfall from the Profit Guarantee, the Vendor will be liable to pay the Company in cash for any outstanding compensation amount on a dollar for dollar basis after off-setting the amount represented by the Restricted Convertible Notes.

Based on the 2008 audited financial results of New Beida, the profit guarantee requirement was not fulfilled and the Group had set off the amount of the shortfall as calculated in accordance with the acquisition agreement dated 16 October 2007 against the principal amount of the Restricted Convertible Notes, with the remaining balance of approximately HK\$565,000 against the other loan as at 31 December 2008.

The directors of the Company have assessed the fair value of the Convertible Loan Notes 2008 with embedded derivative. At 31 December 2009, the liability component of the Convertible Loan Notes is approximately HK\$248,058,000 which is stated at amortised cost using the effective interest method and the fair value of the derivative component of the Convertible Loan Notes 2008 is approximately HK\$316,000 (2008: HK\$64,455,000). The effective interest expense of Convertible Loan Notes 2008 and change in fair value of the embedded derivatives amounting to approximately HK\$34,734,000 and HK\$41,506,000, respectively, have been recognised in the consolidated income statement for the year ended 31 December 2009.

The methods and assumptions applied for the valuation of the Convertible Loan Notes 2008 are as follows:

Valuation of liability component

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the initial recognition contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component is 12.29%.

31. CONVERTIBLE LOAN NOTES (Continued)**The Group and the Company (Continued)***Valuation of issuer early redemption option derivative*

Bionomial model is used for valuation of issuer early redemption option derivative. The inputs into the model were as follows:

	27 February 2008	31 December 2008	31 December 2009
Stock price	HK\$0.93	HK\$0.50	HK\$0.30
Exercise price	HK\$0.20	HK\$0.20	HK\$0.98 (adjusted due to the placing of shares and share consolidation)
Volatility	57.77%	67.15%	50.67%
Option life	36 months	26 months	14 months
Risk free rate	2.009%	0.567%	0.27%

Acquisition of 100% interest in IIN Medical (BVI)

On 23 April 2009, pursuant to the acquisition of 61.27% interest in IIN Medical (BVI) from Multico Holdings Limited (“Vendor A”) and 38.73% from a group of minority shareholders (“Vendor B”), the Company issued convertible loan notes (the “Convertible Loan Notes 2009”) as partial settlement of the acquisition consideration.

The principal terms of the Convertible Loan Notes 2009 are as follows:

Date of issue	23 April 2009
Aggregate principal amount	HK\$32,770,000
Denomination in multiple of	HK\$200,000
Interest rate	Nil
Adjusted conversion price (previously reported)	HK\$1.57 (HK\$0.32)
Maturity dates	Principal amount approximately HK\$20,150,000 matured in 48 months from the date of issue and the remaining principal amount of approximately HK\$12,620,000 matured in 24 months from the date of issue

31. CONVERTIBLE LOAN NOTES *(Continued)***The Group and the Company** *(Continued)**(a) Conversion period*

The holders of the Convertible Loan Notes 2009 shall have the rights to convert the whole or any part of the outstanding principal amount into new ordinary shares in the Company. The commencement dates of conversion fall within the period from 31 December 2009 to 30 June 2012. The shares to be issued and allotted upon conversion shall rank pari passu in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue.

(b) Redemption option

The holders of Convertible Loan Notes 2009 shall have the rights to redeem up to 25% of the principal amount of the Convertible Loan Notes 2009 outstanding at an amount equals to the principal amount of the Convertible Loan Notes 2009. The commencement dates of redemption fall within the period from 31 December 2009 to 30 June 2012. The Company is not required, at the maturity of the Convertible Loan Notes 2009, to redeem or pay any amount of the Convertible Loan Notes 2009.

The Convertible Loan Notes 2009 contains liability component, equity component and redemption option derivatives. The holders redemption option derivative is not closely related to the host contract as the redemption amount is not close to the amortised cost of the liability on the redemption date. Holders redemption option derivative is measured at fair value with change in fair value recognised in consolidated income statement.

(c) Profit guarantee

Certain members of Vendor B undertake to the Group that the profits after tax shown in the audited consolidated financial statements of Hunan IIN Medical, prepared in accordance with Hong Kong Generally Accepted Accounting Principles for the year ending 31 December 2009 should not be less than RMB8.5 million and will compensate the Group for any shortfall, in proportion of their respective shareholding in IIN Medical (BVI) to the extent of an aggregate 17.31% thereof, between the guaranteed profit and the actual profit.

Based on the audited financial results of Hunan IIN Medical, the profit guarantee requirement is fulfilled.

31. CONVERTIBLE LOAN NOTES (Continued)**The Group and the Company (Continued)***(c) Profit guarantee (Continued)*

The directors of the Company have assessed the fair value of the Convertible Loan Notes 2009 with embedded derivative. At 31 December 2009, the liability component of the Convertible Loan Notes 2009 is approximately HK\$6,316,000 which is stated at amortised cost using the effective interest method and the fair value of the derivative component of the Convertible Loan Notes 2009 is approximately HK\$1,640,000. The effective interest expense of Convertible Loan Notes 2009 amounting to approximately HK\$486,000 and the change in fair value of the embedded derivatives amounting to approximately HK\$1,333,000 have been recognised in the consolidated income statement for the year ended 31 December 2009.

The methods and assumptions applied for the valuation of the Convertible Loan Notes 2009 are as follows:

Valuation of liability component

At the date of issue, the liability component was recognised at fair value. The fair value of liability component was calculated based on the present value of the initial recognition contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the average yield of notes with similar credit rating and remaining time to maturity. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component is ranged from 10.70% to 11.55%.

Valuation of holder redemption option derivative

Bionomial model is used for valuation of holder redemption option derivative. The inputs into the model were as follows:

	23 April 2009	31 December 2009
Stock price	HK\$0.30	HK\$0.30
Exercise price	HK\$0.32	HK\$1.57 (adjusted after the placing of shares and share consolidation)
Option life	48 months	40 months
Risk free rate	0.70%-1.55%	0.32%-1.25%

31. CONVERTIBLE LOAN NOTES (Continued)

The Group and the Company (Continued)

(c) Profit guarantee (Continued)

Valuation of holder redemption option derivative (Continued)

The movement of the liability component of the convertible loan notes for the year is set out below:

	Liability component HK\$'000	Equity component HK\$'000	Financial derivative- asset HK\$'000	Financial derivative- liability HK\$'000	Total HK\$'000
Issue of Convertible					
Loan Notes 2008	508,575	285,987	(74,562)	—	720,000
Cancellation of Convertible					
Loan Notes 2008, at fair value	(105,954)	(59,580)	15,534	—	(150,000)
Conversion of Convertible					
Loan Notes 2008	(93,237)	(52,433)	13,670	—	(132,000)
Change in fair value	—	—	(19,097)	—	(19,097)
Effective interest expenses	31,686	—	—	—	31,686
Carrying amount					
at 31 December 2008	341,070	173,974	(64,455)	—	450,589
Conversion of Convertible					
Loan Notes 2008 (Note a)	(110,765)	(53,145)	19,690	—	(144,220)
Issue of Convertible					
Loan Notes 2009 (Note b)	5,830	25,079	—	307	31,216
Redemption of Convertible					
Loan Notes 2008 (Note c)	(16,981)	(7,944)	2,943	—	(21,982)
Change in fair value	—	—	41,506	1,333	42,839
Effective interest expenses	35,220	—	—	—	35,220
Carrying amount					
at 31 December 2009	254,374	137,964	(316)	1,640	393,662

31. CONVERTIBLE LOAN NOTES (Continued)**The Group and the Company (Continued)***Valuation of holder redemption option derivative*

Notes:

- (a) Set out below are details of conversion of the Convertible Loan Notes 2008 during the year:

Date of conversion	Principal amount of the convertible notes	Number of ordinary shares issued (adjusted due to share consolidation)
	<i>HK\$</i>	
10 June 2009	49,000,000	49,000,000
18 June 2009	44,000,000	44,000,000
29 June 2009	13,600,000	13,600,000
10 September 2009	13,600,000	13,600,000
16 October 2009	13,600,000	13,600,000

- (b) The Company issued convertible loan notes on 23 April 2009 as partial consideration for the acquisition of 100% interest in IIN Medical (BVI) and its subsidiaries.

- (c) On 5 October 2009, Convertible Loan Notes 2008 in the principal amount of HK\$20,000,000 were redeemed.

The Group's convertible loan notes were valued by Malcolm & Associate Appraisal Limited, a qualified valuer not connected with the Group, for each of the years ended 31 December 2009 and 2008.

32. OPERATING LEASE COMMITMENTS

	The Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Minimum lease payments under operating leases during the year:		
— premises	5,236	4,035
— others	167	69
	<u>5,403</u>	<u>4,104</u>

At the end of the reporting date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and other asset, which fall due as follows:

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	3,993	5,071
In the second to fifth years inclusive	5,156	12,080
Over five years	1,000	1,000
	<u>10,149</u>	<u>18,151</u>

Leases are negotiated and rentals are fixed for terms of 1 to 12 years (2008: 3 to 12 years).

33. ACQUISITION OF SUBSIDIARIES

On 23 April 2009, the Group completed the acquisition of 100% interest in IIN Medical (BVI), of which 61.27% from Vendor A and 38.73% from Vendor B.

Details of the net assets acquired in respect of the acquisition of IIN Medical (BVI) and its subsidiaries during the year ended 31 December 2009 are summarised below:

Fair value of assets**and liabilities acquired***HK\$'000***NET ASSETS ACQUIRED**

Property, plant and equipment	3,360
Other intangible assets	529
Inventories	81
Trade and other receivables	12,622
Amount due from minority shareholder of a subsidiary	615
Bank balances and cash	10,903
Trade and other payables	(7,944)
Deposit in advance	(140)
Dividend payable	(3,834)
	<u>16,192</u>
Net assets acquired	16,192
Non-controlling interests	(3,768)
Goodwill	<u>31,222</u>
Adjusted consideration	<u>43,646</u>
Total consideration satisfied by:	
— Cash	5,650
— Other payable — Contingent convertible loan notes (note a)	6,780
— Convertible loan notes, at fair value (note b)	<u>31,216</u>
	<u>43,646</u>
Net cash inflow arising on acquisition:	
Cash paid	(5,650)
Bank balances and cash acquired	<u>10,903</u>
	<u>5,253</u>

33. ACQUISITION OF SUBSIDIARIES (Continued)

The goodwill arising on the acquisition of IIN Medical (BVI) during the year ended 31 December 2009 was attributable to the anticipated future operating synergies from the combination of the existing distribution networks of the Group.

The subsidiaries acquired contributed approximately HK\$22,305,000 to the Group’s revenue and profit of approximately HK\$3,405,000 to the Group’s results for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2009, total contribution to the Group’s revenue for the year ended 31 December 2009 would have been approximately HK\$34,307,000, and profit for the year ended 31 December 2009 would have been HK\$10,670,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group for the year ended 31 December 2009 that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

Note:

- (a)

In accordance with the acquisition agreements entered into with Vendor A and Vendor B, upon the renewal of the Joint Construction Agreement with profit sharing percentage no less than 51% and other terms and conditions under the renewed agreement no less favourable than those under the existing agreement, the contingent consideration of HK\$6,780,000 will be satisfied by issue of additional Convertible Loan Notes 2009 in the principal amount of HK\$6,780,000.
- (b)

The consideration of approximately HK\$32,770,000 was satisfied by issue of the convertible loan notes with a conversion price of HK\$0.32 per conversion share to the Vendor A and Vendor B. Further details of the convertible notes payable are set out in note 31 to the financial statements.

34. OTHER COMMITMENT

	The Group	
	2009	2008
	HK\$'000	HK\$'000
Expenditure contracted for but not provide in the consolidated financial statement in respect of:		
— Consultancy service	<u>1,000</u>	<u>210</u>

35. SHARE-BASED EMPLOYEE COMPENSATION**Pre-IPO Share Option Scheme**

The Company adopted a Pre-IPO Share Option Scheme on 24 November 2001, pursuant to which, the Board might during the period commencing on the adoption date of the Pre-IPO Share Option Scheme and ending on the day immediately prior to the day when bulk printing of the prospectus for listing of shares of the Company took place grant options to any employee of the Group or any other persons who, in the sole discretion of the Board, have contributed or would contribute to the Group to subscribe for shares of the Company at HK\$0.12 per share, representing a discount of approximately 64% of the placing price when the shares of the Company were first listed on GEM of the Stock Exchange on 5 December 2001. The exercise price was subsequently adjusted to HK\$0.9796 per share after adjustment for the open offer of the Company effected during the year and the share consolidation effected in the year 2006.

On 27 November 2001, options to subscribe for a total of 44,000,000 shares of the Company were granted to a director and an employee at a total consideration of HK\$2. The options granted may be exercised at any time during the period from 5 December 2001 to 4 December 2011. No options were granted under the Pre-IPO Share Option Scheme after the listing of the shares of the Company. The option for subscribing 40,000,000 shares of the Company was lapsed and an option to subscribe for 490,000 shares (after adjustment for the open offer of the Company effected during the year and the share consolidation effected in the year 2006) was outstanding as at 31 December 2009. No options granted under Pre-IPO Share Option Scheme were exercised, cancelled or lapsed during the year.

Share Option Scheme

The Company adopted a Share Option Scheme on 24 November 2001 for the purpose of providing incentives or rewards to selected persons for their contribution to the Group. The Share Option Scheme shall be valid and effective for 10 years with expiry date of 5 December 2011. Pursuant to the Share Option Scheme, the Board may grant options to any employee of the Group or any other persons who, in the sole discretion of the Board, have contributed or will contribute to the Group to subscribe for shares of the Company at a price determined by the Board and shall be no less than the highest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer of the option which must be a business day, (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of the options; and (iii) the nominal value of a share on the date of offer of the options.

The total number of securities which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 47,774,389 shares (equivalent to 238,871,947 shares before adjustment for the share consolidation of the Company effective 17 December 2009). The maximum entitlement of each participant under the Share Option Scheme in any 12-month period is 1 per cent of the shares in issue.

35. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

Share Option Scheme (Continued)

The grantees may accept the offer of options by paying HK\$1 as the consideration of the grant to the Company within 28 days from the date of offer. Any offer which is not accepted within such period will be deemed to have been irrevocably declined. The options may be exercised at any time during a period of 10 years from the date of grant of the options and there is no lock-up period for exercise of the options.

The movements in the share options of the Company in year 2008 year are shown in the following table:

Name of participant	Date of grant	Exercise period and vesting period	Exercise price per share HK\$	At 1 January 2008	Granted for the year	Exercised during the year	Lapsed during the year	At 31 December 2008
Directors								
Tsang Wing Yee (resigned on 1 April 2008)								
	10/11/2006	10/11/2006-09/11/2016	0.1729	177,625	—	(177,625)	—	—
Chen Hong	28/08/2008	28/08/2008-27/08/2018	0.43	—	9,500,000	—	—	9,500,000
Liang Juan	28/08/2008	28/08/2008-27/08/2018	0.43	—	2,000,000	—	—	2,000,000
Wang Hui	28/08/2008	28/08/2008-27/08/2018	0.43	—	9,000,000	—	—	9,000,000
Wei Jianya	28/08/2008	28/08/2008-27/08/2018	0.43	—	4,000,000	—	—	4,000,000
Li Xiangjun	28/08/2008	28/08/2008-27/08/2018	0.43	—	7,000,000	—	—	7,000,000
Subtotal				177,625	31,500,000	(177,625)	—	31,500,000
Others								
In aggregate	28/08/2008	28/08/2008-27/08/2018	0.43	—	65,500,000	—	—	65,500,000
Total				<u>177,625</u>	<u>97,000,000</u>	<u>(177,625)</u>	<u>—</u>	<u>97,000,000</u>

35. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

Share Option Scheme (Continued)

The movements in the share options of the Company during the year are shown in the following table:

Name of participant	Date of grant	Exercise period and vesting period	Exercise price per share* HK\$	At 1 January 2009	Number of share options adjusted due to share consolidation*	Granted during the year*	Exercised during the year	Lapsed during the year	At 31 December 2009
Directors									
Chen Hong	28/08/2008	28/08/2008—27/08/2018	2.150	9,500,000	(7,600,000)	—	—	—	1,900,000
	09/07/2009	09/07/2009—08/07/2019	1.095	—	—	1,900,000	—	—	1,900,000
Liang Juan	28/08/2008	28/08/2008—27/08/2018	2.150	2,000,000	(1,600,000)	—	—	—	400,000
	09/07/2009	09/07/2009—08/07/2019	1.095	—	—	2,400,000	—	—	2,400,000
Wang Hui	28/08/2008	28/08/2008—27/08/2018	2.150	9,000,000	(7,200,000)	—	—	—	1,800,000
	09/07/2009	09/07/2009—08/07/2019	1.095	—	—	2,000,000	—	—	2,000,000
Wei Jianya	28/08/2008	28/08/2008—27/08/2018	2.150	4,000,000	(3,200,000)	—	—	—	800,000
	09/07/2009	09/07/2009—08/07/2019	1.095	—	—	600,000	—	—	600,000
Li Xiangjun	28/08/2008	28/08/2008—27/08/2018	2.150	7,000,000	(5,600,000)	—	—	—	1,400,000
	09/07/2009	09/07/2009—08/07/2019	1.095	—	—	2,600,000	—	—	2,600,000
Subtotal				31,500,000	(25,200,000)	9,500,000	—	—	15,800,000
Others									
In aggregate	28/08/2008	28/08/2008—27/08/2018	2.150	65,500,000	(52,400,000)	—	—	—	13,100,000
	09/07/2009	09/07/2009—08/07/2019	1.095	—	—	18,500,000	—	—	18,500,000
Total				97,000,000	(77,600,000)	28,000,000	—	—	47,400,000

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital. Following the share consolidation effective on 17 December 2009, the total number of share options outstanding and the exercise price of the share options outstanding and the closing price of shares immediately before the date of grant had been adjusted accordingly. The closing price of the shares at the date of grant of the share options was HK\$1.065 (adjusted after the share consolidation).

35. SHARE-BASED EMPLOYEE COMPENSATION (Continued)**Share Option Scheme (Continued)**

- (a) During the year ended 31 December 2009, the number of share options granted was 140,000,000 (2008: 97,000,000). The fair value of options granted under the Share Option Scheme, amounted to approximately HK\$18,851,000 (2008: HK\$24,632,000) of HK\$0.1346 each (before adjustment for share consolidation) (2008: HK\$0.2539 each). The fair values of the outstanding options were derived from Black-Scholes option pricing model by applying the following bases and assumptions:

Date of grant (dd-mm-yy)	Expected volatility	Expected life (in years)	Risk-free interest rate	Expected dividend yield
09.07.2009	86.70%	10	1.78%	Nil
28.08.2008	79.60%	10	2.76%	Nil

The Group recognised the total expenses of approximately HK\$18,851,000 (2008: HK\$24,632,000) in relation to share options granted by the Company.

- (i) the expected volatilities were generated from Bloomberg based on the Company's 1,250-day historical share prices before 9 July 2009 (last year: 999-day historical share prices before 28 August 2008);
- (ii) the applicable risk-free rates were the yields of five years Hong Kong Monetary Authority exchange fund notes, matching the assumed life of the options, quoted on 9 July 2009 (last year: 28 August 2008); and
- (iii) the expected dividend yields were estimated based on the historical dividend, which was zero.
- (b) The values of the options are subject to the limitations of the Black-Scholes option pricing model and a number of assumptions which are subjective and difficult to ascertain. Changes in the subjective input assumptions could materially affect the fair value estimate.
- (c) No share option was exercised during the year 2009. For the year 2008, the share price of the Company's shares immediately before the date on which the options were exercised and at the date of exercise of the share options are HK\$0.37 and HK\$0.37 respectively.
- (d) The outstanding share options as at 31 December 2009 had a remaining contractual life of 9.95 years (31 December 2008: 9.65 years).
- (e) If options are forfeited before expiration or lapsed, the related share-based payment reserve will be transferred directly to accumulated losses.

36. RETIREMENT SCHEME

In compliance with the Mandatory Provident Fund Schemes Ordinance (the “MPF Ordinance”), the Group have participated in the MPF scheme, a defined contribution scheme managed by an independent trustee, to provide retirement benefits to its Hong Kong employees. Contributions to the MPF scheme are made in accordance with the statutory limits prescribed by the MPF Ordinance (at 5% of the salaries and wages with a limit at 5% of HK\$20,000).

The Group’s contributions to the defined retirement contribution scheme for the year ended 31 December 2009 amounted to approximately HK\$43,000 (2008: HK\$27,000). The contributions are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the group in an independently administered fund.

37. EVENT AFTER THE REPORTING PERIOD

- (a) On 18 January 2010, Convertible Loan Notes 2009 in the principal amount of HK\$1,250,000 were redeemed.
- (b) On 18 January 2010, Convertible Loan Notes 2009 in the principal amount of HK\$3,750,000 were converted by holders to subscribe for 2,388,535 shares at a conversion price of HK\$1.57 per share.
- (c) On 9 March 2010, Convertible Loan Notes 2008 in the principal amount of HK\$150,000,000 were converted by holders to subscribe for 153,061,224 shares at a conversion price of HK\$0.98 per share.
- (d) On 11 March 2010, Convertible Loan Notes 2009 in the principal amount of HK\$1,244,934 were redeemed.

FINANCIAL AND TRADING PROSPECTS**Financial Review**

For the year ended 31 December 2009, the Group recorded a turnover of approximately HK\$23,253,000 (2008: HK\$26,692,000) representing a decrease of approximately 12.9% compared to the previous year. The decrease in turnover was mainly due to the combined effect of: 1) impact of the global financial tsunami on the banking industry in China which adversely affected the performance of New Beida, its turnover decreased from approximately HK\$26,615,000 in 2008 to approximately HK\$948,000 in 2009, and 2) the acquisition of IIN Medical (BVI) and its subsidiaries (collectively referred to as “IIN Medical Group”) on 23 April 2009, which contributed turnover of approximately HK\$22,305,000 to the Group for the year ended 31 December 2009. Gross profit margin decreased to approximately 16.6% for the year ended 31 December 2009 from approximately 67.6% for the year ended 31 December 2008. The decrease in gross profit margin was primarily due to the substantial decrease in New Beida’s turnover while its cost of sales, mainly comprised fixed overheads, remained at a level similar to that of 2008. The decrease was also attributable to the lower gross profit margin of IIN Medical Group, compared to that of New Beida in 2008.

Other income for the year under review increased from approximately HK\$161,000 in 2008 to approximately HK\$3,192,000. It was mainly attributable to the Company’s gain on redemption of convertible loan notes on 5 October 2009 and rental income generated from New Beida during the year of approximately HK\$1,982,000 and HK\$975,000 respectively.

Although IIN Medical Group’s operational results were incorporated into the Group’s results for the year ended 31 December 2009, administrative expenses of the Group decreased from approximately HK\$46,368,000 in 2008 to approximately HK\$43,290,000 in 2009. It was mainly attributable to the decrease in share-based payment expenses from approximately HK\$24,632,000 in 2008 to approximately HK\$18,851,000 in 2009 and the measures taken by the management to reduce overheads and costs during the year under review.

Due to the poor performance of New Beida, the management reassessed the recoverable amount of goodwill associated with the acquisition of New Beida and of New Beida’s other assets. The Group recorded impairment loss on goodwill and intangible assets of approximately HK\$326,115,000 and HK\$33,060,000 respectively during the year under review.

Finance costs increased from approximately HK\$12,589,000 in 2008 to approximately HK\$78,059,000 in 2009. Finance costs primarily consist of accretion of interest on the liability portion of convertible loan notes of approximately HK\$35,220,000 (2008: HK\$31,686,000) and fair value changes on the derivative portion of convertible loan notes of approximately HK\$42,839,000 (2008: gain of HK\$19,097,000)

As a result, the consolidated loss for the year increased from approximately HK\$365,862,000 in 2008 to approximately HK\$475,378,000 in 2009.

Prospects

Given the uncertainties in New Beida's existing operations, we will reorganise its business by discontinuing certain loss-making and risky projects in order to minimise the Group's exposure to financial as well as business risks. As we expect IIN Medical Group will continue to contribute stable income as well as cash flows to the Group, we will continue to focus on developing new continuous education program in Chinese medicine.

To improve the financial position of the Group, we are considering various alternatives to enlarge the Group's capital base, which include the proposal to issue new shares in order to provide additional funding to the Group. In the meantime, the Group will continue to look for opportunities for our existing business that may increase the shareholders' value of the Group and further reduce the business risk of the Group.

INDEBTEDNESS*Borrowings*

As at 31 March 2010, being the Latest Practicable Date of this indebtedness statement, the Group had outstanding amount due to the former shareholder of approximately HK\$49,435,000, which is unsecured, interest-free and is repayable on 30 June 2012.

Convertible notes

As at 31 March 2010, the Group had outstanding Convertible Note (A) in the principal amount of HK\$134,200,000 and Convertible Note (B) in the principal amount of HK\$26,525,066.

Contingent liabilities

As at 31 March 2010, the Group did not have any contingent liabilities.

Saved as aforesaid, apart from intra-group liabilities, normal trade payables and other payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans or other similar indebtedness, debt securities issued and outstanding, and authorised or otherwise created but unissued term loans or other borrowings, indebtedness in nature of borrowings, liabilities under acceptances (other than trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured, or unsecured, guaranteed or other contingent liabilities outstanding at the close of business on 31 March 2010. The Directors of the Company were not aware of any material change in respect of the indebtedness or other contingent liabilities of the Group since 31 March 2010 and up to Latest Practicable Date.

WORKING CAPITAL

The Board, after due and careful enquiry, is of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's financial resources, including internally generated funds, available banking facilities, the estimated net proceeds of the Open Offer and redemption of the convertible loan notes with maturity date of 26 February 2011 of not more than approximately HK\$80,000,000 out of the total outstanding principal amount of approximately HK\$134,200,000, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this Prospectus. The Directors are aware of the liquidity position of the Group which will depend largely on the completion of the Open Offer and additional fund raising for possible redemption of convertible loan notes outstanding. As at the Latest Practicable Date, the Company has no concrete plan on fund raising exercise other than the Open Offer. However, the Company will consider various financing methods, including both debt financing and equity financing subject to the market sentiment and conditions of the Company to improve its liquidity. The Company will publish announcement(s) to update the Shareholders as and when necessary.

MATERIAL ADVERSE CHANGE

The Directors confirm that there was no material adverse change in the financial or trading position of the Group since 31 December 2009 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

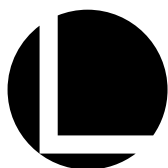
UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET
TANGIBLE LIABILITIES OF THE GROUP

The following is an unaudited pro forma statement of adjusted consolidated net tangible liabilities of the Group which has been prepared on the basis as set out in the notes below and in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules to illustrate the effects of the Open Offer on the consolidated net tangible liabilities attributable to the equity holders of the Company as if the Open Offer had been completed on 31 December 2009. The unaudited pro forma statement of adjusted consolidated net tangible liabilities of the Group had been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group as at 31 December 2009 and any future date.

	Audited consolidated net tangible liabilities of the Group attributable to the equity holders of the Company as at 31 December 2009 HK\$'000 (Note 1)	Net proceeds from the Open Offer HK\$'000	Unaudited pro forma adjusted consolidated net tangible liabilities of the Group attributable to the equity holders of the Company immediately after the Open offer HK\$'000
Based on 222,661,915 Offer Shares and 445,323,830 Bonus Shares to be issued	268,077	(106,783) (Note 2)	161,294
Audited consolidated net tangible liabilities per Share as at 31 December 2009 prior to the completion of the Open Offer			0.57 (Note 3)
Unaudited pro forma adjusted consolidated net tangible liabilities per Share immediately after the completion of the Open Offer based on 222,661,915 Offer Shares and 445,323,830 Bonus Shares to be issued			0.14 (Note 4)

Notes:

- 1 The audited consolidated net tangible liabilities of the Group attributable to the equity holders of the Company as at 31 December 2009 are based on the audited consolidated net liabilities of the Group as at 31 December 2009, which has been extracted from the published annual report of the Company for the year ended 31 December 2009 as set out in Appendix I to the Prospectus.
- 2 The net proceeds from the Open Offer of approximately HK\$106,783,000 are based on the issue of 222,661,915 Offer shares at the Subscription Price by way of the Open Offer after deducting the share issue expenses of approximately HK\$4,548,000.
- 3 The audited consolidated net tangible liabilities per Share of approximately HK\$0.57 is calculated based on 472,563,895 Shares in issue as at 31 December 2009.
- 4 The unaudited pro forma adjusted consolidated net tangible liabilities per Share immediately after the completion of the Open Offer of approximately HK\$0.14 is arrived at after the adjustment referred to in note 2 above and on the basis of 1,140,549,640 Shares in issue upon completion of the Open Offer, which comprised 472,563,895 Shares in issue as at 31 December 2009 and 222,661,915 Offer Shares and 445,323,830 Bonus Shares issued pursuant to the Open Offer.
- 5 For the purpose of the preparation of the Unaudited Pro Forma Financial Information in the context of the Open Offer, no adjustment has been made to reflect the financial effects of the several conversion and redemptions of Convertible Note (A) and Convertible Note (B) as stated in note 37 to the Appendix I of the Prospectus and any trading results or other transactions of the Group entered into subsequent to 31 December 2009.



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LO AND KWONG C.P.A. COMPANY LIMITED

AUDIT • TAX • BUSINESS ADVISORY

12 May 2010

The Board of Directors
China E-Learning Group Limited
Unit 3306, 33/F, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

**ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA STATEMENT OF THE
ADJUSTED CONSOLIDATED NET TANGIBLE LIABILITIES OF THE GROUP**

We report on the unaudited pro forma statement of consolidated net tangible liabilities (the “Unaudited Pro Forma NTL”) of China E-Learning Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on Appendix II to the Prospectus dated 12 May 2010 (the “Prospectus”), in connection with the open offer on the basis of seven offer shares for every twenty shares held by the qualifying shareholders as at 11 May 2010 with bonus issue on the basis of the two bonus shares for every one offer share taken up (the “Open Offer”), which has been prepared by the directors of the Company (the “Directors”), for illustrative purposes only, to provide information about how the Open Offer might have affected the consolidated net tangible liabilities of the Group upon completion of the Open Offer.

The basis of preparation of Unaudited Pro Forma NTL is set out in pages 92 to 93 of Appendix II to the Prospectus.

Respective responsibilities of Directors of the Company and reporting accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma NTL in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the Unaudited Pro Forma NTL and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma NTL beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma NTL with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma NTL has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

The Unaudited Pro Forma NTL is for illustrative purpose only, based on the judgments and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2009 or any future date.

Opinion

In our opinion:

- a) the Unaudited Pro Forma NTL has been properly compiled by the Directors on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma NTL as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Lo and Kwong C.P.A. Company Limited

Certified Public Accountants

Lo Wah Wai

Practising Certificate Number: P02693

Hong Kong

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10th July 2001 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were first adopted on 24th November 2001, with subsequent amendments on 20th December 2004, 16th May 2006 and 24th April 2007. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in

such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(iv) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary,

commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(v) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(vi) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(vii) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(viii) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in subparagraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meeting shall be called by at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of

joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual

payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 24th July 2001.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be

given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

1. RESPONSIBILITY OF THE DIRECTORS

This Prospectus, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this Prospectus is accurate and complete in all material respects and is not misleading;
- (b) there are no other matters the omission of which would make any statement in this Prospectus misleading; and
- (c) all opinions expressed in this Prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. SHARE CAPITAL

(a) Share Capital

The authorized and issued share capital of the Company as at the Latest Practicable Date were, and following completion of the Open Offer will be, as follows:

<i>Authorized</i>		<i>HK\$</i>
<u>2,000,000,000</u>	Shares as at the Latest Practicable Date	<u>1,000,000,000</u>
<u><u>2,000,000,000</u></u>		<u><u>1,000,000,000</u></u>
<i>Issued and to be issued as fully paid</i>		<i>HK\$</i>
636,176,919	Shares in issue as at the Latest Practicable Date	318,088,459.5
222,661,915	Offer Shares to be issued pursuant to the Open Offer (<i>Note</i>)	111,330,957.5
<u>445,323,830</u>	Bonus Shares to be issued pursuant to the Bonus Issue (<i>Note</i>)	<u>222,661,915</u>
<u><u>1,304,162,664</u></u>		<u><u>652,081,332</u></u>

Note: Based on 636,176,969 Shares in issue as at the Latest Practicable Date on the basis of seven Offer Shares for every twenty existing Shares held.

All the existing issued Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital. All the Offer Shares which will be issued upon completion of the Open Offer will rank pari passu in all respects with each other and with all the Shares in issue as at the date of allotment and issue of the Offer Shares including as regards to all rights as to dividends, voting and return of capital. All the Offer Shares to be issued will be listed on the Stock Exchange.

(b) Share Options

As at the Latest Practicable Date, the Company has 47,498,000 outstanding Share Options which confer rights on holders to subscribe for 47,498,000 Shares. The Share Options were granted at a consideration of HK\$1.00 per grantee on various dates to the Directors and employees of the Company under the share option schemes of the Company adopted on 24 November 2001, details of the exercise price and exercise period of the Share Options are as follows:

Grantees	Share Options held	Exercise price per Share HK\$	Exercise period
<u>Pre-IPO Share Option Scheme</u>			
Consultant	<u>98,000</u>	4.898	5/12/2001 — 4/12/2010
<u>Share Option Scheme</u>			
Directors			
Chen Hong	1,900,000	2.150	28/08/2008 — 27/08/2018
	1,900,000	1.095	09/07/2009 — 08/07/2019
Liang Juan	400,000	2.150	28/08/2008 — 27/08/2018
	2,400,000	1.095	09/07/2009 — 08/07/2019
Wang Hui	1,800,000	2.150	28/08/2008 — 27/08/2018
	2,000,000	1.095	09/07/2009 — 08/07/2019
Wei Jianya	800,000	2.150	28/08/2008 — 27/08/2018
	600,000	1.095	09/07/2009 — 08/07/2019
Li Xiangjun	1,400,000	2.150	28/08/2008 — 27/08/2018
	<u>2,600,000</u>	1.095	09/07/2009 — 08/07/2019
Subtotal	15,800,000		
Others			
In aggregate	13,100,000	2.150	28/08/2008 — 27/08/2018
	<u>18,500,000</u>	1.095	09/07/2009 — 08/07/2019
Total	<u><u>47,400,000</u></u>		

(c) Convertible Notes

On 27 February 2008, pursuant to the acquisition of 100% interest in New Beida Business StudyNet Group Limited from Sino Tactic Group Limited, the Company issued Convertible Note (A) as partial settlement of the acquisition consideration. The principal terms of the Convertible Note (A) are as follows:

Date of issue	:	27 February 2008
Aggregate principal amount	:	HK\$720,000,000
Outstanding principal amount	:	HK\$126,200,000
Denomination in multiple of	:	HK\$20,000,000
Interest rate	:	Nil
Adjusted conversion price	:	HK\$0.98
Maturity date	:	36 months from the date of issue

On 23 April 2009, pursuant to the acquisition of 61.27% interest in IIN Medical (BVI) Group Limited from Multico Holdings Limited and 38.73% from a group of minority shareholders, the Company issued Convertible Note (B) as partial settlement of the acquisition consideration. The principal terms of the Convertible Note (B) are as follows:

Date of issue	:	23 April 2009
Aggregate principal amount	:	HK\$32,770,000
Outstanding principal amount	:	HK\$26,252,066
Denomination in multiple of	:	HK\$200,000
Interest rate	:	Nil
Adjusted conversion price	:	HK\$1.57
Maturity dates	:	Principal amount approximately HK\$20,150,000 matured in 48 months from the date of issue and the remaining principal amount of approximately HK\$12,620,000 matured in 24 months from the date of issue

Save as disclosed above, as at the Latest Practicable Date, there were no outstanding options, warrants, derivatives or convertible securities which may confer any right on the holder thereof to subscribe for, convert or exchange into new Shares.

There is no arrangement under which future dividends will be waived or agreed to be waived.

There is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong from outside Hong Kong.

3. DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company or their respective associates in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO or as otherwise, notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

(a) Long positions in the Shares

Name of Directors	Corporate Interest	Personal Interest	Total	Approximate Percentage of Interest in the Company’s issued share capital
Chen Hong	—	38,785,600	38,785,600	6.10%

(b) Long position in underlying Shares of equity derivatives of the Company*Share Option Scheme*

The interests in the underlying Shares arise from Share Options granted to the Directors under the Share Option Scheme, details of which were as follows:

Name of Directors	Date of grant	Exercisable period	Exercise price per Share	Aggregate long position in underlying Shares	Approximate Percentage of Interest in the Company's issued share capital
Chen Hong	28/08/2008	28/08/2008 — 27/08/2018	2.150	1,900,000	0.60%
	09/07/2009	09/07/2009 — 08/07/2019	1.095	1,900,000	
Wang Hui	28/08/2008	28/08/2008 — 27/08/2018	2.150	1,800,000	0.60%
	09/07/2009	09/07/2009 — 08/07/2019	1.095	2,000,000	
Wei Jianya	28/08/2008	28/08/2008 — 27/08/2018	2.150	800,000	0.22%
	09/07/2009	09/07/2009 — 08/07/2019	1.095	600,000	

Note:

The above interest constitutes a long position of the Director in a physically settled equity derivative for the purpose of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or their respective associates has any personal, family, corporate or other interests or short positions in the Shares or the shares of the Company's associated (within the meaning of Part XV of SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings by Directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the following interests of which fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly or indirectly interested in 5% or more of the issued share capital of the Company, or which were recorded in the register of interests required to be kept under Section 336 of the SFO or have notified to the Company were as follows:

Long position in Shares or underlying Shares of the Company

Name of Shareholder	Capacity	Number of shares or underlying shares held	Percentage of issued share capital
Yang Dong Jun (<i>Note 1</i>)	Beneficial owner	116,788,416	18.36%
Huang Qun	Beneficial owner	64,539,526	10.14%
Gong Di Qing	Beneficial owner	61,274,490	9.63%
Atlantis Investment Management Limited (<i>Note 2</i>)	Investment manager	37,000,000	5.82%
Liu Yang (<i>Note 2</i>)	Interest of a controlled corporation	37,000,000	5.82%
Jia Zhe Jin (<i>Note 3</i>)	Beneficial owner	36,938,775	5.81%
Kingston Securities Limited (<i>Note 4</i>)	Other	636,176,919	48.78%
Galaxy Sky Investments Limited (<i>Note 5</i>)	Interest of a controlled corporation	636,176,919	48.78%
Eagle Mission Limited (<i>Note 6</i>)	Interest of a controlled corporation	636,176,919	48.78%
Active Dynamic Limited (<i>Note 7</i>)	Interest of a controlled corporation	636,176,919	48.78%
Chu Yuet Wah (<i>Note 8</i>)	Interest of a controlled corporation	636,176,919	48.78%

Notes:

1. Interests in 116,788,416 shares or underlying shares comprise interest in 65,768,008 Shares and interest in 51,020,408 underlying Shares representing the conversion rights attached to the convertible notes in the principal amount of HK\$50,000,000.
2. Atlantis Investment Management Limited is beneficially owned as to 40% by Ms. Liu Yang. Accordingly, Ms. Liu Yang is deemed to be interested in the 37,000,000 shares of the Company.
3. Interest in 36,938,775 shares or underlying shares represents the conversion rights attached to the convertible notes in the principal amount of HK\$36,200,000.
4. 636,176,919 shares represent the number of Shares underwritten by Kingston Securities Limited under a Open Offer as detailed in the Prospectus. The percentage of issued share capital is calculated based on the number of shares as enlarged by the new shares to be allotted and issued under the Open Offer (i.e. 1,304,162,664 shares).
5. Kingston Securities Limited is wholly owned by Galaxy Sky Investments Limited, a company incorporated in the British Virgin Islands. Accordingly, Galaxy Sky Investments Limited is deemed to be interested in the 636,176,919 underlying shares of the Company. The percentage of issued share capital is calculated based on the number of shares as enlarged by the new shares to be allotted and issued under the Open Offer (i.e. 1,304,162,664 shares).
6. Galaxy Sky Investments Limited is wholly owned by Eagle Mission Limited, a company incorporated in the British Virgin Islands. Accordingly, Eagle Mission Limited is deemed to be interested in the 636,176,919 underlying shares of the Company. The percentage of issued share capital is calculated based on the number of shares as enlarged by the new shares to be allotted and issued under the Open Offer (i.e. 1,304,162,664 shares).
7. Eagle Mission Limited is beneficially owned as to 80% by Active Dynamic Limited, a company incorporated in the British Virgin Islands. Accordingly, Active Dynamic Limited is deemed to be interested in the 636,176,919 underlying shares of the Company. The percentage of issued share capital is calculated based on the number of shares as enlarged by the new shares to be allotted and issued under the Open Offer (i.e. 1,304,162,664 shares).
8. Active Dynamic Limited is wholly owned by Mrs. Chu Yuet Wah. Accordingly, Mrs. Chu Yuet Wah is deemed to be interested in the 636,176,919 underlying shares of the Company. The percentage of issued share capital is calculated based on the number of shares as enlarged by the new shares to be allotted and issued under the Open Offer (i.e. 1,304,162,664 shares).

Saved as disclosed above, as at the Latest Practicable Date, no person, other than the Directors of the Company and the chief executive of the Group whose interests are set out in the section “Directors’ and Chief Executive’s Interests” above, had registered an interest or short position in the share capital, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by any member of the Group within the two years immediately preceding the date of this Prospectus that are or may be material:

- (a) the Underwriting Agreement;
- (b) the top-up placing and subscription agreement dated 20 July 2009 entered into by the Company, Kingston Securities Limited and Chen Hong pursuant to which Chen Hong agreed to place up to 190,000,000 Shares and subscribe for such number of Shares actually placed at a price of HK\$0.18 per Share;
- (c) the agreement dated 12 June 2008 (as amended by the supplemental agreement thereto dated 30 June 2008) entered into between Best Boom Enterprises Limited (a wholly owned subsidiary of the Company) and Multico Holdings pursuant to which Best Boom Enterprises Limited conditionally agreed to acquire from Multico Holdings 61.27% of the issued share capital of IIN Medical (BVI) Group Limited and 0.000033% of the issued share capital of IIN Medical Group Limited at a total consideration up to RMB24,508,013.33; and
- (d) the agreement dated 12 June 2008 (as amended by the supplemental agreement thereto dated 30 June 2008) entered into between Best Boom Enterprises Limited (a wholly owned subsidiary of the Company) and a group of the minority investors pursuant to which Best Boom Enterprises Limited conditionally agreed to acquire from the minority investors 38.73% of the issued share capital of IIN Medical (BVI) Group Limited at a consideration of up to RMB15,492,000.

6. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the businesses of the Group.

None of the Directors nor the expert(s) referred to in paragraph headed "Experts and Consents" of this Appendix has any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2009, being the date to which the latest published audited consolidated accounts of the Group were made up.

7. DIRECTORS' SERVICE CONTRACTS

All the executive Directors have entered into service contracts with the Company for a term of three years. These service contracts may be terminated by either party giving not less than three months' notice to the other party.

All the independent non-executive Directors have not been appointed for a specific term.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or substantial Shareholders or their respective associates had any interests in any business which competes or may compete with the business of the Group.

9. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

10. EXPERTS AND CONSENTS

The following is the qualification of the expert who has given opinions or advice, which are contained or referred to in this Prospectus:

Name	Qualification
Lo and Kwong C.P.A. Company Limited	Certified Public Accountants

Lo and Kwong C.P.A. Company Limited has given and has not withdrawn its written consent to the issue of this Prospectus with the inclusion of its letter dated 26 April 2010 and references to its name, in the form and context in which they appear. As at the Latest Practicable Date, Lo and Kwong C.P.A. has no shareholding in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

Registered Office:	Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands
Head office and, principal place of business in Hong Kong:	Unit 3306, 33/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong
Principal share registrars and transfer office in the Cayman Islands:	Butterfield Fulcrum Group (Cayman) Limited Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman KY1-1107, Cayman Islands
Hong Kong branch share registrars and transfer office:	Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wahchai, Hong Kong
Authorised Representatives:	Mr. Chen Hong Mr. Cheng Man For

Principal Bankers:	Industrial and Commercial Bank of China 1/F Yin Hai Building, No.10 Zhongguancun Nandajie, Haidian District, Beijing City Postal Code 100081 Shenzhen Development Bank 1/F Hengji Center, No.18 Jianguomenneidajie, Dongcheng District, Beijing City Postal Code 10005 China Construction Bank Zhuxinyu, No.5 Labor Road Centre, Changsha City Bank of China (Hong Kong) Limited 1 Garden Road, Hong Kong
Auditors:	Lo and Kwong C.P.A. Company Limited Suite 216-218, 2/F Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong
Financial Advisor:	Kingston Corporate Finance Limited, Suite 2801, 28/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Underwriter:	Kingston Securities Limited, Suite 2801, 28/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Legal advisor:	<i>On Hong Kong law</i> Cheung, Tong & Rosa, Room 501, 5/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong <i>On Cayman Islands law</i> Conyers Dill & Pearman, 2901, One Exchange Square, 8 Connaught Place, Central, Hong Kong
Company secretary:	Cheng Man For

12. MISCELLANEOUS

- (a) The compliance officer of the Company is Mr. Chen Hong who is the executive Director and chairman of the Company.
- (b) The secretary of the Company is Mr. Cheng Man For who is an associate member of Hong Kong Institute of Certified Public Accountants.

- (c) None of any part of the equity or debt securities of the Group is listed or dealt in or any other recognized stock exchange or on which listing or permission to deal is being or is proposed to be sought.
- (d) As at the Latest Practicable Date, save as disclosed herein, the Directors were not aware of any significant event which had occurred to any business of the Company and within the Group since 31 December 2009, being the date to which the latest published accounts of the Group were made up of.
- (e) In case of inconsistency, the English text of this prospectus shall prevail over the Chinese text.

13. BIOGRAPHICAL DETAILS OF DIRECTORS

Executive Directors

Mr. Chen Hong (“Mr. Chen”), aged 41, was appointed as an Executive Director and Chairman of the Company on 1 April 2008; and the authorised representative and compliance officer of the Company on 22 September 2008, Mr. Chen holds a Master of Business Administration from Peking University, China. Mr. Chen has previously worked in several technology companies and investment companies in China as senior management, and had extensive experience in corporate management and investment. Mr. Chen is mainly responsible for the strategy formulation of the Company.

Ms. Wang Hui (“Ms. Wang”), aged 44, was appointed as an Executive Director on 10 July 2008. Ms. Wang holds a Master’s degree in Finance and Investment from Renmin University of China and a Bachelor’s degree in Design of Machine Manufacturing Equipment from Anhui University of Technology and Science. Ms. Wang has previously worked in an investment management company, a technology company and an online education training company as a member of the senior management. She has extensive experience in strategic planning, investment management and online education operation. Ms. Wang is the director of New Beida Business StudyNet Group Limited, a wholly-owned subsidiary of the Company.

Ms. Wei Jianya (“Ms. Wei”), aged 41, was appointed as an Executive Director on 22 September 2008. Ms. Wei holds a Bachelor’s degree in commerce and financial accounting from Zhejiang Gongshang University (formerly known as Hangzhou University of Commerce). Ms. Wei is a Certified Public Accountant registered in the PRC and Chinese Certified Public Tax Consultant. She previously worked in PRC accounting firms and PRC listed companies and has extensive experience in financial management and investment advisory.

Independent Non-Executive Directors

Dr. Wong Yun Kuen (“Dr. Wong”), aged 52, was appointed as an Independent Non-Executive Director and a member of audit committee of the Company on 1 August 2007. Dr. Wong received his Ph.D. degree from Harvard University, and was a “Distinguished Visiting Scholar” in finance at the Wharton School of the University of Pennsylvania and a consultant at AIG Financial Products Corp. of USA. Dr. Wong has extensive experience in corporate finance, investment and derivative products. In addition, Dr. Wong was a consultant to a supercomputer firm on application software, and has participated in the development of e-commerce software and platforms. He is a member of Hong Kong Securities Institute.

Dr. Wong is also an executive director of UBA Investments Limited (Stock code: 768), and an independent non-executive director of Harmony Asset Limited (Stock code: 428), Grand Field Group Holdings Limited (Stock code: 115), Kaisun Energy Group Limited (Stock code: 8203), China Yunnan Tin Minerals Group Company Limited (Stock code: 263), Bauhaus International (Holdings) Limited (Stock code: 483), Golden Resorts Group Limited (Stock code: 1031), Superb Summit International Timber Company Limited (Stock code: 1228), Kong Sun Holdings Limited (Stock code: 295), Climax International Company Limited (Stock code: 439) and China Grand Forestry Green Resources Group Limited (Stock Code: 910).

Dr. Wong was also a former independent non-executive director of Haywood Investment Limited (Stock Code: 905) from 8 June 1998 to 7 July 2005.

Ms. Chan Hoi Ling (“Ms. Chan”), aged 36, was appointed as an Independent Non-Executive Director and chairman of audit committee of the Company on 1 August 2007. Ms. Chan graduated from the University of South Australia with a Bachelor’s degree in Accountancy. Ms. Chan has extensive experience in auditing and financial management. Ms. Chan is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Ms. Chan was also a former independent non-executive director of Climax International Company Limited (Stock Code: 439) from 26 June 2007 to 13 May 2008 and its former executive director from 13 May 2008 to 24 November 2009.

Dr. Huang Chung Hsing (“Dr. Huang”), aged 56, was appointed as an Independent Non-Executive Director and a member of audit committee of the Company on 14 August 2008. Dr. Huang holds a Ph.D. degree in Management Science and Information Systems from the University of Texas at Austin, U.S.A. and a Bachelor’s degree of Science in Electrical Engineering from National Taiwan University. Dr. Huang is the dean of School of Professional and Continuing Studies and the associate professor of Department of Business Administration of National Taiwan University. He is also the chairman of the Committee of Service Management of Chinese Management Association in Taiwan, the advisor of Supervising Committee of Joint Municipal Hospital of Taipei City and the associate researcher of Health Management Center of National Taiwan University Hospital in Taiwan. He has previously held senior positions in various universities and banks such as Beijing University in China and Bank of SinoPac. Dr. Huang has extensive experience in service operation management, business decision making and management of innovation.

14. AUDIT COMMITTEE

The Company has established the audit committee in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are: to independently review and supervise the financial reporting process and internal control systems, to ensure good communications among Directors and the Company's auditors, to recommend the appointment of external auditors on an annual basis and approval of the audit fees, to assist the Board in oversight of the independence, qualifications, performance and compensation of the independent accountant, to review quarterly, interim and annual results announcements as well as the financial statements prior to their approval by the Board, to provide advice on audit report, accounting policies and comments to all Directors.

The audit committee comprises three independent non-executive Directors namely Ms. Chan Hoi Ling (the Chairman of the committee), Dr. Wong Yun Kuen and Dr. Huang Chung Hsing. During the year, the audit committee held four meetings to assess the effectiveness of internal control system, to review all draft annual, quarterly and interim financial reports, and to know about external auditors' statutory audit plan.

For the details of the member of the audit committee of the Company, please refer to sub-section headed "Biographical Details of Directors" above.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Unit 3306, 33/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2009;
- (c) the material contracts referred to under the paragraph headed "MATERIAL CONTRACTS" in this Appendix;
- (d) the service contracts referred to under the paragraph headed "DIRECTORS' SERVICE CONTRACTS" in this Appendix;
- (e) the comfort letter issued by Lo and Kwong C.P.A. Company Limited on pro forma statement of unaudited adjusted consolidated net tangible assets of the Group, the text of which is set out on pages 92 to 96 of this Prospectus;
- (f) the written consents from the Lo and Kwong C.P.A. Company Limited as referred to in paragraph headed "Experts and Consents" of this Appendix;
- (g) the circular dated 26 April 2010 of the Company in respect of, among the other things, the Open Offer;

(h) this Prospectus; and

(i) the Companies Law (2007 Revision) of the Cayman Islands.

16. BINDING EFFECT

The Prospectus Documents and all acceptances of any offer or application contained in such documents, are governed by and shall be construed in accordance with the laws of Hong Kong.

Where an application is made in pursuance of any of such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of Sections 44A and 44B of the Companies Ordinance, so far as applicable.

17. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of the Prospectus Documents having attached thereto all documents required to be condensed or attached to it (if any) has been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance.