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Conference Call Transcript

CEDU - Q4 2007 CHINAEDU CORP Earnings Conference Call

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CORPORATE PARTICIPANTS

Julia Huang*ChinaEdu Corporation - Chairman, CEO***Shawn Ding***ChinaEdu Corporation - President, COO***Michael Xu***ChinaEdu Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Mark Marostica*Piper Jaffray - Analyst***Scott Schneeberger***Oppenheimer - Analyst***Ryan Winter***KIP - Analyst***Leon Chik***Bear Stearns - Analyst*

PRESENTATION

Operator

Thank you for joining the ChinaEdu Corporation Fourth Quarter and Full Year 2007 results conference call. Joining the call today are Ms. Julia Huang, Chairman and CEO; Mr. Shawn Ding, President and COO; and Mr. Michael Xu, CFO. This conference call is also being broadcast on the Internet and is available through the investor relations section of the Company's website. A copy of the presentation that will be used for today's call is available on the Company's website at www.chinaedu.net.

Before the management's presentation, I would like to refer to the Safe Harbor statement in connection with today's conference call. This call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including certain plans, expectations, goals and projections which are subject to numerous assumptions, risks and uncertainties.

Forward-looking statements involve known and unknown risks, uncertainties and contingencies, many of which are beyond our control, which may cause actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activities, performance -- excuse me. Company actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including those described under the heading risk factors in the Company's final prospectus, filed in the Securities and Exchange Commission of December 11, 2007, and in documents subsequently filed by the Company from time to time with the Securities and Exchange Commission.

Unless required by law, the Company undertakes no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise. Following the management's opening comments, you will have an opportunity to ask questions. I would now like to turn the call over to ChinaEdu's Julia Huang, Chairman and CEO. Please proceed.

Julia Huang - ChinaEdu Corporation - Chairman, CEO

Good morning and good evening, everyone, and thank you for joining us today for our fourth quarter and full year 2007 results conference call. As you are probably aware, this is our first results call since our IPO in December.

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Therefore, before we review the results, we'd like to provide a very brief overview of our business and strategies for those of you who are relatively new to our story. Please note that during our remarks we will periodically refer to our results presentations. As the operator mentioned, this is available on our website. For the business section, I would like to turn to Mr. Shawn Ding, our President and COO.

Shawn Ding - ChinaEdu Corporation - President, COO

Thank you, Julia. Ladies and gentlemen, I'm filling in for Julia because she's actually on maternity leave until next week, but she's here with us today.

We believe that ChinaEdu is the largest online education service provider in the Chinese market. Over 200,000 students enrolled in the various programs that we service and that number continues to grow. ChinaEdu's business is divided into two principal categories, online services and site-based offerings.

Our online services accounts for the majority of our revenue. In 2007, our online degree program services revenue represented approximately 76% of our total revenues. By the end of 2007, we had exclusive contracts with 11 of the country's top universities, ranging between 15 and 50 years. As part of our online offering, our online tutoring service accounted for about 7% of our revenue for 2007.

Our site-based program included international curriculum programs and the private, primary, and secondary schools. Although these two combined accounted for only about 17% of our revenue, we believe they both have significant growth potentials. What really makes ChinaEdu stand out is the unique experience we offer to our university partners and the students in these programs.

Now I would like to go over some of the business highlights for the fourth quarter of 2007. First of all, the successful completion of our initial public offering and listing on the NASDAQ Global Market. This is a key milestone for our Company. Through this IPO, ChinaEdu has demonstrated again to the education service industry that we are a financially strong and trustworthy partner, further enhanced our long-established market-leader status.

During the fourth quarter of 2007, we achieved a record number of net revenue and net income. Net revenue for the quarter was RMB79.6 million, a year-over-year increase of 37.6% and net income amounted to RMB9.4 million, an increase of over 220% over the same period of 2006.

One of our key growth drivers is the number of revenue students enrolled in the online degree programs in our university partner programs. I'm very pleased to say that we ended the year 2007 with over 91,000 revenue students in our online degree programs, a 23% increase over the fourth quarter of 2006.

In the fourth quarter, we also successfully added a new university partner. Shanghai University of Finance and Economics is one of the top finance and accounting universities in China. Our joint venture with the university will allow us to capture many significant opportunities. We believe this joint venture will contribute significantly to our growth in the coming years.

One strategic growth opportunity that we believe holds tremendous potential is the learning center network. The learning center is the recruiting and service center for the online degree programs. We are one of only three companies in the country authorized to operate these learning centers in multiple provinces. By the end of December 2007, we had six learning centers in operation.

As the end of Q1 is fast approaching, I would like to take the opportunity to share some business highlights for this quarter as well. As online degree programs is our core business, we always actively seek opportunities to expand the online degree business by securing new university partners. Last month, we reached a definitive agreement with Beijing Forestry University to form a joint venture to provide exclusive online education service to the university. The contract is a 20-year contract.

Year to date, we have also kicked off two more learning centers that give us eight learning centers in operation. Another two are expected to launch enrollment marketing campaigns at the end of March, to give us a total of 10. We are also making good progress in our online tutoring business. We acquired the remaining 20% interest in 101 Online School from its previous owner. Our 101 Online School launched a new product, targeting school customers and a new set of sales and marketing mechanisms have been implemented.

To conclude, all business lines remain solid and strong. The education service sector in China is an exciting and dynamic industry. Our primary focus is to achieve strong organic growth. We have identified a set of growth drivers. The management team is committed to execute them to achieve sustainable long-term growth.

For our core business, the online degree program services, we will continuously strengthen our market leader position by aggressively developing new university partners, providing quality services to drive enrollment growth in the existing programs and further enhancing the learning center network and its profitability.

Finally, we would also take advantage of the highly fragmented education service market to acquire complementary business when the opportunities arise. With that, let's move on to our financial reductions. Michael Xu, our Chief Financial Officer, will now take you through the results for the fourth quarter and the full fiscal 2007. Once our remarks are concluded, we will be happy to take your questions. Michael.

Michael Xu - ChinaEdu Corporation - CFO

Thank you, Shawn. I (inaudible) and I will just quickly walk you through the financial results for the Q4 2007 and for the whole year 2007.

ChinaEdu reported total net revenue of RMB79.6 million, which is approximately US\$10.9 million for the fourth quarter ended December 31, 2007, representing a 37.6% increase from the Q4 of 2006. Net revenue for the online degree programs for the Q4 2007 was RMB64.8 million, approximately US\$8.9 million, representing a 54.5% increase from RMB41.9 million for the corresponding period in 2006.

This increase was mainly attributable to the following factors. First, our university partners' online degree programs experienced significant growth in revenue students in the quarter ended December 31, 2007, as compared to the same period of 2006. In aggregate, our university partners had over 91,000 revenue students during the fourth quarter of 2007, representing a 23% increase from the same period in 2006.

Secondly, a non-recurring RMB8.4 million, which is about US\$1.2 million, payment made by our university partners during the fourth quarter, as a result of access standing at our online education colleges, which in turn reduced the tuition fee payable to ChinaEdu during the previous years.

And, thirdly, a value-added tax refund of RMB3.5 million in the fourth quarter of 2007, which was recognized as net revenue from our online degree program we received. Net revenue from company's non-online degree programs, which include international curriculum program, private primary and secondary schools, and online filtering programs for the fourth quarter of 2007 were RMB14.8 million, roughly US\$2.0 million, representing a 6.9% decrease from RMB15.9 million for the same period of 2006.

This decrease was primarily attributable to the decline in the revenue from [SEC] program, part of our international curriculum programs, which has experienced lower student enrollment and a lower per-student fee for the [outstanding] year started in September 2007, as compared to the same period 2006.

Total cost of revenue for the fourth quarter of 2007 was RMB24.5 million, roughly US\$3.4 million, representing a 12.6% increase from RMB21.8 million for the corresponding period of 2006. Gross profit for the fourth quarter of 2007 was RMB55.1 million, approximately US\$7.6 million, representing a 52.7% increase from RMB36.1 million for the Q4 of 2006.

Our income from operations for the fourth quarter of 2007 was RMB18.7 million, approximately US\$2.6 million, representing a 32.8% increase from RMB14.1 million for the Q4 of 2006. Net income was RMB9.4 million, approximately US\$1.3 million for the Q4 2007, representing a 220.6% increase from RMB2.9 million from the Q4 of 2006. This increase was attributable primarily to the improved performance of the Company's online degree program, as well as other factors discussed above.

Diluted earnings per ordinary share, one ordinary share accounts for one third of ADS. For the fourth quarter of 2007, increased by 171% to RMB0.19, which is about US\$0.03, from RMB0.7 per share in the Q4 of 2006.

Now I change to the balance sheet. As of December 31st of 2007, the Company had a cash, cash equivalents and a term deposits of RMB503.2 million, approximately US\$69 million. Financial results for the fiscal year ended December 31, 2007, for the fiscal year 2007, we reported total net revenue of RMB265 million, approximately US\$36.3 million, representing a 24.1% increase from the fiscal year 2006. Net revenue from online degree programs for the fiscal year 2007 was RMB202.2 million, approximately US\$27.7 million, representing a 28.9% increase from RMB156.8 million for the fiscal year 2006.

The increase was attributable primarily to the factors I have quoted for Q4. Net revenue from the Company's non-online degree program for the fiscal year 2007 was RMB62.8 million, roughly US\$8.6 million, representing a 10.8% increase from RMB56.7 million for the 2006. This

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increase was attributable primarily to the increase in student enrollment for the academic year, started in September 2006 and ended in August 2007, as compared to the academic year started in September 2005 and ended in August 2006.

Total cost of revenue for fiscal year 2007 was RMB96.3 million, approximately US\$13.2 million, representing a 20% growth from RMB80.3 million for fiscal year of 2006. The income from operations for fiscal year 2007 was RMB40.3 million, approximately US\$5.5 million, a 29.6% decrease from RMB37.2 million for the fiscal year 2006.

Income from operations, excluding goodwill impairment charge, share-based compensation, and a write-off of receivables from prior owners of international curriculum programs, which this is a non-GAAP measure for fiscal year 2007, was RMB64.1 million, representing a 7% increase from RMB59.9 million for the fiscal year 2006.

Net income for fiscal year 2007 was RMB2.5 million, which is about US\$300,000, representing a 90% increase from RMB25.5 million for the fiscal year 2006. Net income, excluding share-based compensation, goodwill impairment charge and a write-off of receivables from prior owners of international curriculum programs -- this is a non-GAAP measure -- was RMB24.9 million, approximately US\$3.4 million, representing a 9.9% decrease from RMB27.7 million for the fiscal year 2006.

On a fully diluted basis, EPS for 2007 was RMB0.05, roughly US\$0.01 in U.S. dollar terms. On a fully diluted basis, non-GAAP EPS 2007 was RMB0.53, roughly US\$0.07. Again, one ordinary share amounts to one third of ADS.

And before I'm handing over to Shawn for some concluding remarks, I would like to say a few words on my resignation. I have thoroughly enjoyed my team here at ChinaEdu and with current management. As the financial development is strong, in the financial department is in strong order with good personnel and a system as we transform from a private company to a public company, I have decided to resign for family reasons.

I wholeheartedly wish Julia, Shawn and the rest of ChinaEdu can continue to be successful. Now I will hand back over to Shawn for the conclusion remarks.

Shawn Ding - ChinaEdu Corporation - President, COO

Thank you, Michael. Before we take our questions, I would also like to conclude our remarks by extending our sincere thanks to Michael. Michael was instrumental in the execution of our IPO in December and has contributed greatly to our success during his tenure. He has helped us to put together an exceptional and experienced financial (inaudible) team. The key initiatives (inaudible) way to further enhance the Company's financial discipline.

Even though it is regrettable to see Michael leaving the Company for family reasons, our financial team will smoothly execute the Company's financial management. The transition plan is being executed, and we wish Michael all the best. We are confident our new CFO will be appointed in the near future. With that, we will now take your questions. Operator?

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Your first question comes from the line of Mark Marostica with Piper Jaffray. Please proceed.

Mark Marostica - Piper Jaffray - Analyst

Thank you, and nice job on the quarter. My first question relates to, Shawn, your remarks about 10 learning centers, 10 proprietary learning centers being online by the end of March. And I would like to know whether or not you think -- first of all, part A of the question, what percentage of your enrollments, your online degree services enrollments, will actually go through or be generated by those learning centers, those proprietary learning centers?

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And, secondly, should we expect the aggregate payments to third-party learning centers to actually stabilize here this year at that 41% level in '08, or should we expect that metric to continue to rise? And I'm thinking, given that you have 10 centers online, that you may be able to control that cost item a little bit more directly.

Shawn Ding - ChinaEdu Corporation - President, COO

Thank you, Mark. The first question is the percentage of our proprietary learning centers contributing to the overall enrollment in all the programs. The answer is for '07 and also for '08, the actual percentage will be very small. Of all the learning centers, of the nine programs we are currently operating, we are actually using over 700 third-party learning centers. And bear in mind also, please, the learning centers are very young and so for '07 and '08, the percentage will not be of a high percentage.

The second thing, related to that, is the learning centers are also servicing programs that are not -- do not have financial relationships with us. In other words, the learning centers are also serving other online degree colleges, as well.

So the total number enrolled, students enrolled in the learning centers are not only our financial programs. The second question you asked about the stabilization of the learning center fees. Yes, we have strong confidence that the learning center fees will be stabilized. We do not see any trend or reason for them to go even higher and, honestly, I think the fee at this level is already extremely high. And we do not believe any of these online degree programs will be able to offer more fees or more, higher percentage of fees to the learning centers in any way.

Mark Marostica - Piper Jaffray - Analyst

As we look to 2008, what should we expect enrollment growth to be? How are you thinking about enrollment growth for all of '08?

Shawn Ding - ChinaEdu Corporation - President, COO

It's a little bit of a complicated question, because each of the nine programs, each program has different ways to address the market, to expand in different ways, but a couple of things, quality of service is definitely the number-one driver. The students are becoming more and more sophisticated and more and more experienced in selecting the education programs.

The word of mouth is coming to higher and higher enrollment percentages. In other words, one of the programs, the Renmin University program, over 30%, or even close to 40% of the new enrollments in Beijing are existing student referrals. So they're not really from the marketing. So we believe that enhanced the quality of the program will contribute significantly to the growth of the enrollments. And also, of course, the marketing, various marketing and consulting efforts that are currently being offered will also help.

And the third driver, I believe, will be through developing new learning centers and new curriculum programs. For example, any particular online college can add a new program that can address a particular market and that will also drive the growth of that program.

Mark Marostica - Piper Jaffray - Analyst

In regards to the schools that you have contracted with recently that are over and above the nine schools that are actively generating revenue for you, when do you think those will actually be licensed and start contributing revenue to ChinaEdu?

Shawn Ding - ChinaEdu Corporation - President, COO

Okay, I always get that question, Mark. Two things. One is even before the license will be granted, what we're doing right now with the three schools is to have the school ready, have the platform ready, the service team ready and we would offer the online training through these programs first to train the team and to generate revenue and profit through these online training programs, which is a less-regulated area, or a lot less regulated area, I should say.

And the second thing is, and I believe there is good opportunity, particularly with these good universities, in that sector, as well. The second thing is about the timing of the approval. Obviously, it's very, very hard for us to predict at this point what exactly is going to be the approval timing,

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but we are confident with all the news releases or the publications of some of the latest things we have seen that the programs will be approved sometime during 2008. But it's very, very hard for us to give you a specific date.

Mark Marostica - Piper Jaffray - Analyst

And then onto the K through 12 business, I'm curious if you could update us on the impact of the snowstorms on any of your construction activities.

Shawn Ding - ChinaEdu Corporation - President, COO

Okay, we have two campuses under construction at the end of 2007, early 2008. One of them was completed and it's fully operational. The second one was delayed principally as a result of the snowstorms. The delay was for about two months. At this point, we're doing everything we can to have the second facility ready for 2008 school year, but it's a little bit early to tell what's going to happen at this point. We're continuously assessing the situation, monitoring the progress of that construction. We will be able to give you an update at a little bit later time.

Mark Marostica - Piper Jaffray - Analyst

Okay, and then last question, regarding Q1 revenue guidance, does that include any one-time non-recurring revenue as we saw in the fourth quarter.

Michael Xu - ChinaEdu Corporation - CFO

No, no. That's recurring revenue and I don't think there's any -- we didn't factor in any potential one-time incomes for the fourth quarter.

Mark Marostica - Piper Jaffray - Analyst

Okay, great, thanks. I'll turn it over.

Shawn Ding - ChinaEdu Corporation - President, COO

Thank you, Mark.

Operator

Your next question comes from the line of Scott Schneeberger with Oppenheimer. Please proceed.

Scott Schneeberger - Oppenheimer - Analyst

Thanks, good evening. Just following up on a few of Mark's questions, for the online degree program, could you guys just discuss a little bit about pricing strategy. I think we're looking for flat over the coming year but any new developments there or thoughts about what you've done in fourth quarter, will do in first quarter?

Michael Xu - ChinaEdu Corporation - CFO

Okay, I don't think we're going to risk the price over the board. What we are doing right now is going to have some programs, especially I have had a number of discussions with our general managers of our joint ventures. We are going to raise prices in certain programs, as well as in certain areas. The price of the programs are charged differently in different areas, so there will be price increases in certain programs, in certain areas, but not across the board.

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Scott Schneeberger - Oppenheimer - Analyst

Okay, thanks. On the -- you just spoke briefly about the opportunity to generate some revenue through the schools that have not yet been approved to run online degree programs. Could you speak a little bit more about that, and would it be material or really the real materiality of the revenue will come upon approval? Thanks.

Michael Xu - ChinaEdu Corporation - CFO

Can you repeat the last sentence, please?

Scott Schneeberger - Oppenheimer - Analyst

Sure, the JVs that do not yet have the approval from MOE, you mentioned that they can generate some revenue. Would that be material revenue under the lesser-regulated training programs or would it just be small and the real revenue will come upon approval?

Michael Xu - ChinaEdu Corporation - CFO

Okay, that's a good question. There will be revenue generated in these programs. We are not counting them in our forecast. The revenue will be mostly from the training. However, one of the programs is doing degree programs that they are offering, like, the second degree or the second credential type of things to the on-campus students. That is essentially University of Finance and Economics. They have done that in the 2007. They recruited over 1,000 students in 2007.

But overall, I think you're right, the real majority and the significant part will be coming once the license is granted. Before that, I think the non-degree training takes time. It takes a little bit longer to incubate, if you will.

Scott Schneeberger - Oppenheimer - Analyst

Okay. With -- I guess switching over now to the tutoring business, you had talked in the past about moving more to a direct sales strategy and bringing more of the sales technique in house. Could you speak a little bit more about your progress there. Thanks.

Shawn Ding - ChinaEdu Corporation - President, COO

Thanks, Scott, sure. What we have done is a number of things. We have -- on the sales side, we had only about six what we call sales managers in house in 2007. we have over 20 as of now.

What we're doing is we have layered the sales managers, so we have like a sales agent in charge of a particular province. And then on top of that an experienced and trained veteran sales manager will lead two to three of these sales agents, covering a small part of China. And then what they do is they are traveling around across the country, developing new sales channels, namely distributors. They're also developing direct customers, talking to the education commissions in the country and the local cities to sign up contracts there.

One of the products we have launched is a product for school. It's called a school edition. It's tailored to be used by the school and by the teachers of the school, and we are selling the products directly to the school when they are on the road. Secondly, we are operating directly in some strategic markets directly ourselves. We had for the prior to 2007, we had only two direct markets. One is Beijing, one is another major city called Tanjing that is not too far away from Beijing.

We have about seven or eight direct markets right now we're operating directly. And the reason we are doing this is that we think these strategic markets will give us direct feedback on the market response to our products. We also believe these markets can generate much bigger profit for us over the long run. So we are training the team, we have set up direct operations facilities in some of the major facilities. I hope that's helpful to you, Scott.

Scott Schneeberger - Oppenheimer - Analyst

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Yes, thanks. Jumping back to online degree, there's one other question I meant to ask there that I hadn't, the economics for the Beijing Forestry University, is that similar to some of your other contracts? Can you discuss at all what that structure is like? Thanks.

Michael Xu - ChinaEdu Corporation - CFO

All of our joint venture contracts are roughly on the economic side are roughly on a 50 to 50 level. So the contract may be rewarded or structured a little bit differently, but overall the economics is 50-50 between ChinaEdu and the university partner.

Scott Schneeberger - Oppenheimer - Analyst

Okay, thanks. And one final one, how aggressively are you spending the proceeds you raised from the IPO? You had mentioned earlier that you did have some delays due to the snowstorm. If you could just give us an update -- we know where you're spending, but maybe an update on that and how quickly you will be spending?

Shawn Ding - ChinaEdu Corporation - President, COO

Do you want to take the question?

Michael Xu - ChinaEdu Corporation - CFO

Well, as of today we haven't spent as much as we hoped for, and for the next two years, first of all, we still maintain the budget, the capital expenditure budget, as we already disclosed in the S-1. And I think, I believe, in the next two years we're going to spend about RMB90 million to RMB100 million to finish the construction of two land-based schools.

Scott Schneeberger - Oppenheimer - Analyst

Okay, great. Thanks very much. That's all for me.

Shawn Ding - ChinaEdu Corporation - President, COO

Thanks, Scott.

Operator

(OPERATOR INSTRUCTIONS). Your next question comes from the line of Ryan Winter with KIP. Please proceed.

Shawn Ding - ChinaEdu Corporation - President, COO

Hi, Ryan.

Ryan Winter - KIP - Analyst

Hi, how are you doing? Great quarter. My question is with respect to Beijing Forestry University, and other potential new joint ventures. Does the combination of signing the joint ventures before the ministry grants approval, does that potentially accelerate, or is there a strategic component to doing that with respect to getting ministry approval -- is the first part of my question.

The second one is, as you seek new joint venture partners, would you say that the majority of partners have existing approval or does ChinaEdu bring some help to that process to partners?

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Shawn Ding - ChinaEdu Corporation - President, COO

Ryan, I'm sorry, I didn't really catch the gist of your first question. Could you repeat that?

Ryan Winter - KIP - Analyst

I'm just trying to understand, does doing the joint venture prior to getting ministry, does it accelerate the process that you, given that you've done this many times before, does it accelerate the process for getting ministry approval?

Shawn Ding - ChinaEdu Corporation - President, COO

Yes. The answer is yes, and it's actually related to your second question. What we're doing right now -- well, let me back-track for a second here. Actually, the bar for approval of these online colleges or approval of the licenses, is much higher today than let's say six years ago. In 2002 was the last batch of the licenses granted.

At that point, all the university had to do was have a good intention, write out a proposal and, basically, based on the proposal, the license would be granted out. Today, we do not believe any licenses will be granted that simply. We understand from communications to the Ministry of Education the online university must have an online college already set up, with a good and solid technology platform, a team that is proven and has certain experiences in offering some sort of online education. And these will be the ones that will be mostly preferred.

And the approval process is actually done by an expert committee. Most of the members of the expert committees are experts in the industry and a majority of the committee members are the deans of some of the leading online colleges.

So these are the people who really understand what's needed for online education college to succeed. So what we're doing right now with the three partners that we signed a contract with are setting up the technology platform, have the team ready, have the operational and support and service infrastructure ready and start to offer training programs so that the team can be trained and some of the relationships with the learning centers can be built up.

So we have basically an online college that is really ready for enrollment. What we did before, in the past, with the joint venture, when we set up a joint venture, the first year usually was very challenging. We had to do a lot of things at the same time, have the technology platform set up, have the team built, have the courseware developed and have the sales and the distribution channel developed and have the recruiting and marketing and recruiting campaign kicked off in the first year.

So the first year was always a huge pressure for the team, and with these three partners we can do this, we can help them to apply for the license, train them and get them ready. So the two questions you asked are actually quite related. With our help, they stand a much bigger, better chance to get the license.

Ryan Winter - KIP - Analyst

Great, thank you very much.

Shawn Ding - ChinaEdu Corporation - President, COO

Thanks, Ryan.

Operator

(OPERATOR INSTRUCTIONS). Your next question comes from the question of Leon Chik with Bear Stearns. Please proceed.

Shawn Ding - ChinaEdu Corporation - President, COO

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Hi, Leon.

Operator

Your line is open. You may be on mute.

Leon Chik - Bear Stearns - Analyst

Can you hear me?

Shawn Ding - ChinaEdu Corporation - President, COO

Yes, we can hear you now.

Leon Chik - Bear Stearns - Analyst

Oh, sorry. Yes, I just wanted to get a little bit of flavor on how much the students spend -- the spend per student in the fourth quarter this year compared to last year, stripping out all the exceptionals. Can you just give me an idea if the spend per student is higher or flat in this quarter?

Michael Xu - ChinaEdu Corporation - CFO

It's pretty much flat. It's pretty much flat, with a little bit of uptick.

Leon Chik - Bear Stearns - Analyst

A little bit of uptick, okay. You know, this VAT, this 3.5 million, is that -- that comes only in the fourth quarter, right?

Michael Xu - ChinaEdu Corporation - CFO

Yes, the VAT tax refund happens each and every year. So the only reason we quote it -- the only reason -- we normally book the VAT refund when we receive the money from the government, so it's not a one-time item.

Leon Chik - Bear Stearns - Analyst

Could you tell me if this is the same -- did you receive it in the fourth quarter of last year, as well?

Michael Xu - ChinaEdu Corporation - CFO

No, actually the timing can vary from -- the timing of when we receive VAT can vary from year to year, so in the last year we didn't receive VAT refund in Q4, but in this year we received in Q4.

Leon Chik - Bear Stearns - Analyst

When did you receive it in the last year?

Michael Xu - ChinaEdu Corporation - CFO

Last year, in 2006? I believe it was in Q2 -- sorry, in Q3. I'm sorry, in Q3.

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Leon Chik - Bear Stearns - Analyst

I see, thank you. Second question, I believe the 10 learning centers that you're going to put into place, they're going to be evaluated and whether or not you can expand that, increase to 10, is going to require some approval. Can you give us some flavor on when that process is going to start and when that's going to finish?

Shawn Ding - ChinaEdu Corporation - President, COO

Okay, Leon, the provisional license given to us is for until the other [stuff] in 2008. At that time, an evaluation will be done. Hopefully we will be successfully past the evaluation that would allow us to penetrate to more cities and with the licenses to open more learning centers. We are hopeful and we are also confident that we will be able to do that.

We have started some communications with the Ministry of Education regarding that, but at this point it's a little early to tell you exactly that final license or how that final license will be granted. Actually, the criteria for the evaluation is not even crystal clear to us yet.

The second thing that I would like to comment really to your question is that we have accelerated our plan in terms of doing some of the franchise learning centers. So in other words, in some of the provinces, starting earlier this year, where we have good relationships with the education authorities, that we are doing franchise learning centers and we are getting approvals from the provincial level that would allow us to operate the learning centers directly over there.

And one of the key advantages ChinaEdu can offer to the learning center network is that the option product, so to speak, is something that we can offer relatively a lot easier than anybody else. So with these products and with our business development team, we are going to have more franchise learning centers in those provinces, which contributed to our top and bottom line this year as well. And we planned to do that originally later on, but we have accelerated that process. I hope that's helpful.

Leon Chik - Bear Stearns - Analyst

Can I just have one last one? Just could you give us an idea, like, what kind of spending that involves? And especially if you're counting the spending per potentially new acquired franchised learning center, how does that compare with one that you just set up yourself in terms of the multiple that you have to pay over your cost of doing that yourself?

Shawn Ding - ChinaEdu Corporation - President, COO

The franchise learning center, there's no cost to us. What we're doing is we're bringing the product and we're bringing the approval to the learning centers where we would have a contract with them. ChinaEdu would profit from the difference between the fees the university paid to us and the fees we paid to the franchise learning centers. So there's no actual cost other than some of the travel and related travel from related costs.

Leon Chik - Bear Stearns - Analyst

How is that different than the 300 or so learning centers that you're already using today? How are these new franchise learning centers different than -- because you don't own them and you don't have the economics of them because you don't spend any money on them? Am I getting this wrong or these any different than the learning centers that you're using today that's totally third party?

Shawn Ding - ChinaEdu Corporation - President, COO

Yes, I understand what the question is. It's different because the third-party learning centers, the programs are using -- the contract is directly between the learning center and the university, or the online college, so to speak, so the fees are paid to them directly.

What ChinaEdu is doing on the franchise learning center is that we are -- by having a learning center joining the ChinaEdu franchise learning center network, what we are doing is providing a set of standards, a set, for example, a standard of [WICI], standard of training to them and we

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are also carrying the products we have signed with the university to -- in those particular areas. And we're also helping the learning center to get the approval from the local educational authorities to become a learning center.

So all of these are the value we're providing to the local learning centers. And to the universities, we are offering a network of learning centers that can help them to recruit students. So the university will be willing to pay out much higher fees than they paid directly to the learning centers because it's like group selling or group purchase power?

Leon Chik - Bear Stearns - Analyst

So for these new learning centers, for all the work you do for them, does that mean they take the same 40% that the other ones take, or less? Are they going to take a lot lower number percentage of the total education fee?

Michael Xu - ChinaEdu Corporation - CFO

They take somewhere between 30% to 40%, depending on the enrollment numbers.

Leon Chik - Bear Stearns - Analyst

Okay, thanks very much.

Michael Xu - ChinaEdu Corporation - CFO

Thanks, Leon.

Operator

We are currently showing no more questions in queue. At this time, I would like to turn the call over to management for closing remarks.

Shawn Ding - ChinaEdu Corporation - President, COO

Well, ladies and gentlemen, thank you for joining the call. We appreciate your taking the time to listen to our earnings release. We look forward to provide the investment community to better results and the management team is committed to execute our strategy. We look forward to more open communication offline as well. Thank you, have a good day, good night.

Operator

Thank you for your participation in today's conference. This concludes our presentation. You may now disconnect. Have a good day.

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