

FINAL TRANSCRIPT

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CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Event Date/Time: Aug. 20. 2008 / 8:00AM ET

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the ChinaEdu Second Quarter 2008 Financial Results Conference Call. At this time all participants are in a listen-only mode. Following management's prepared remarks we will hold a Q&A session.

(OPERATOR INSTRUCTIONS)

I would now like to turn the conference over to ChinaEdu's Investor Relations Manager, Mr. Jimmy Xia. Please, go ahead sir.

Jimmy Xia - ChinaEdu Corp. - Manager - IR

Thank you. Good morning and good evening. Thank you, for participating in today's conference call. Joining me today are Miss Julia Huang, Chairman and CEO, and Mr. Shawn Ding, President and COO. After the close of the U.S. markets on Tuesday, ChinaEdu issued a press release announcing its 2008 second quarter financial results, which is available on the company's IR webpage at www.ir.chinaedu.net.

This call is also being broadcast live over the Internet, and a copy of the presentation that will be used for today's call is also available on our website. 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, level of activities, performance or achievements to differ materially from any future results, levels of activities, performance or achievements expressed or implied by such forward-looking statements.

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

The company's 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 with the SEC and the 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 any future-looking statement, whether as a result of new information, future events or otherwise. I would now like to turn the call over to our headcount and CEO, Miss Julia Huang. Julia?

Julia Huang - *ChinaEdu Corp. - CEO, Acting CFO*

Thank you, Jimmy. Good morning, and good evening. Thank you for joining us today. We are pleased to report our second quarter total net revenue of RMB79.5 million, or \$11.6 million, which represents 24.9% year-over-year growth. This solid revenue growth exceeded our top-line guidance and was primarily driven by the strong growth in revenue students in our core business line, the Online Degree programs.

Before I go to more details on our financial performance, let's now turn to Shawn Ding, our President and COO, for some business and operational highlights. Following our prepared remarks, we'll be happy to take your questions. Shawn?

Shawn Ding - *ChinaEdu Corp. - President, COO*

Well thank you, Julia. I would also like to extend my welcome and appreciation to those joining us today. As you may have already know, in 2008 businesses in China are facing a different but difficult set of challenges, as in other parts of the world. Particularly in ChinaEdu, we experienced the reverberations of a successful IPO in the first half of this year.

I hope you would agree with me from my update that the management team at ChinaEdu has already resurrected from the post effects and has become much stronger. The theme for us in 2008 is quite simple, that is grow our business and improve our services and products across the board.

Let's now start at slide three of the presentation. As Julia mentioned, our top-line revenue grew by 24.9% led by growth in our Online Degree program, in which revenue and student enrolment grew by 33.9% and 25% respectively over the same period last year. Our commitment is to ensure our business continues to grow and we have certainly achieved that in the past quarter.

There has always been two directions for us to grow our Online Degree programs. One is to grow by adding more comprehensive service partners. The other one is to develop a learning center network. As we have said before, the development of our learning center network is a key strategic objective for us. It provides a strong vertical integration opportunity for us and we are actively pursuing the expansion of both wholly owned and franchised learning centers.

Currently, our learning center network consists of 10 wholly owned and 12 franchised learning centers. These learning centers are in place to provide recruitment and supporting services for our Online Degree programs including, but not limited to, ChinaEdu's joint venture programs. They will serve as channels for our other business lines as well.

Additionally, the learning centers will help drive our top line growth by capturing a material portion of per-student universities tuition revenue. We will continue to grow this part of our business as it is an integral part of our strategy and provides us with a significant and comprehensive competitive advantage.

Now let's move on to slide four. Our online tutoring program has improved significantly in terms of both the quality of service and the range of new products offered to students. Some of the new items being rolled out include new course offerings and product targeting schools and a preschool educational product called the Yo Yo Bear. Our international curriculum programs have performed in line with our expectations based on enrolment numbers.

Aug. 20, 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Now our K-12 private primary and secondary school business will continue to generate a steady revenue and profit growth for us over the next few years. Last time, we reported that our Jingzhou school campus construction was delayed due to the snow storms of earlier this year. At this point, we are still in the process of determining the best course of action for this school and that we will update you once the plan is firmly in place.

Moving on to slide five. First, allow me to talk about some of the recent developments and the key initiatives. Once again, to create and maintain solid growth of the business and provide top-notch services are always the focus of the management team. With that as one of our top priorities, we have and will continuously be aggressive in terms of developing comprehensive service partners.

We are confident that our superior service offering will ensure us of being the partner of choice for more universities in the coming quarters. Up to this point, on the learning center side we have signed eight new contracts with the leading universities as partner of our learning center networks.

Our learning center networks are providing each university with a recruiting and supporting services. Our network has expanded significantly to not only 10 wholly-owned but also 32 franchised learning centers, which has created a solid foundation for our long-term growth.

The online K-12 tutoring market has always been challenged by off-line tutoring, particularly so this year. We have identified a set of initiatives to be executed in the second half of 2008, including launching more products along with the intensive sales and marketing efforts. We are confident that our initiatives to improve service, deliver new products and enhance customer experience will pay off.

Providing cutting-edge technology has always been critical to the ChinaEdu online businesses. To ensure that we remain as a technological leader in the industry, we are also working on a list of initiatives to enhance our product and service support.

Last but not least, we recognize the tremendous potential in the non-degree training market in China. We're exploring a business model that not only complement our existing Online Degree business but also be sustainable and scalable by itself.

ChinaEdu can establish a strong foothold in that sector leveraging the skills we already have. We are approaching this sector very carefully. It is still in the early stage of development, and we believe we can develop programs that can leverage and complement our Online Degree programs.

To conclude my remarks, I would like to assure our investors that, despite the extraordinary events and various interferences that occurred in the first half of this year, particularly the noises generated from the fluctuating stock price, the management team at ChinaEdu remains focused on execution.

We strongly believe that the best way to increase our shareholder value is by further strengthening the fundamentals of the business and the generating solid growth. Now Julia will review some of the key financial information for you. Julia?

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

Thanks, Shawn. I'll review highlights of our second quarter statement of operations and balance sheet and also discuss our outlook for next quarter in just a moment. First, I'm pleased to announce that we have finalized agreement with a new CFO, who we expect to start at the company in early October. We look forward to introducing our new CFO to you and will issue announcement in September with more details.

Aug. 20, 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

As Shawn previously mentioned, our total revenue growth in the second quarter was driven primarily by the robust student enrolment growth in our Online Degree programs. Total net revenue increased by 24.9% to RMB79.5 million, or \$11.6 million, compared with RMB63.7 million in the second quarter of 2007 and RMB69.7 million in the first quarter of 2008.

Net revenue from Online Degree services increased by 33.9% to RMB65.1 million, or \$9.5 million, versus RMB48.6 million in the 2007 second quarter and RMB54.9 million in the first quarter of 2008.

The number of revenue students continued to increase in the second quarter, this time by 25%, to approximately 125,000 versus 100,000 in the corresponding period of last year. Sequentially, the number of revenue students increased by 37.4% from 91,000 revenue students in the first quarter of 2008.

Now let's turning to slide eight. Online degree services continue to be the primary growth driver at ChinaEdu, representing 81.9% of total revenue in the second quarter compared with 76.4% of the same period last year. As in the past, the significant revenue from Online Degree programs was attributable to the strong market demand and the increase in student enrolment, as I just mentioned.

In 2008 second quarter, online tutoring, international curriculum and private schools made up 18.1% of the total revenue, or RMB14.4 million of the total revenue, versus 23.6% and RMB15.0 million respectively in the 2007 second quarter. However, we expect service improvements and development of new products to strengthen the contributions of our non-Online Degree business in the future.

Now let's move to slide nine. As a result of the increase in student enrolment, our cost of revenue increased by 18.1% to RMB23.4 million in the second quarter of 2008 compared with RMB19.8 million in the second quarter of 2007 and RMB24.2 million in the first quarter of 2008.

Specifically, cost of revenue from Online Degree programs increased by 13.5% compared with the last year due to the increase in the scale of services necessary to support our 20 university partners. However, it's important to note that percentage increase in revenue in this segment was substantially larger than the increase in costs, which demonstrates the scalability of our online model.

You would see a [slight chance] that we have continued to increase our gross margin, which we have done consistently since 2005. We achieved gross profit of RMB56.1 million, or \$8.2 million, in the second quarter of 2008, representing a gross margin of 70.6%. This compares with a gross profit margin [68.9%] in the second quarter of 2007.

Our continued gross margin improvement is largely driven by an incremental growth of our Online Degree program services. Gross margin from our Online Degree programs increased to 79.3% during the second quarter of 2008 from 75.6% during the second quarter of 2007.

Now let's turn to slide 11. Slide 11 shows that our operating income in the second quarter increased by 5.9% to RMB22.9 million compared with RMB21.6 million in the second quarter of last year. Income from operations excluding share-based compensation and amortization of the intangible assets was RMB26.8 million for the 2008 second quarter, representing an 8.3% increase over the prior-year period.

We continue to closely manage our operating expenses. Our G&A expenses were RMB20.4 million, or \$3 million, for the second quarter of 2008 versus RMB14.3 million for the second quarter of 2007. The 42.8% increase was primarily due to a significant increase in the number of employees necessary to operate our learning center network and the related discretionary stock-based compensation granted to the employees.

Also contributing to the increase was an increase in the rent, depreciation, maintenance expenses related to our new learning centers and additional expenses associated with being a newly U.S. listed public company.

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Selling and marketing expenses were RMB7 million, or \$1.0 million, for the 2008 second quarter compared with RMB3.2 million for the corresponding period in 2007. This increase is attributable primarily to the increase in overall sales and marketing activities as well as acquiring additional sales and marketing personnel in response to the ongoing expansion of the company's business.

Our R&D expenses for the second quarter of 2008 were RMB5.8 million, or \$900,000, compared with RMB4.7 million for the corresponding period in 2007 with 22.8% increase attributable primarily to increase in R&D personnel and activities related to improving the interactive services to attract potential customers.

Our non-GAAP adjusted EBITDA increased by 11% to RMB29.9 million in the second quarter of 2008 versus RMB26.9 million in second quarter of 2007, which indicates ChinaEdu's healthy operational earning growth. Of note, other non-operating income was RMB2.1 million in the second quarter of 2008, attributable to a one-time government reimbursement for high-tech enterprises.

On slide 12 you will see that we reported net income of RMB9.2 million in the second quarter of 2008 compared with RMB12.4 million in the second quarter of 2007. This year's second quarter was impacted by increased expenses really related to the adoption of new, unified income tax rate as well as the active expansion of the company's learning center network, which I must reiterate we expect to pay off in the long term.

As you may see under the new Chinese enterprise income tax regulations that became effective in 2008, the statutory tax rate for all enterprises in China is 25%, except for companies considered as new and high-tech enterprises, which are required to re-apply for such status in order to be subject to 15% preferential tax rate. We're actively preparing the material to re-apply for new and high-tech enterprises status.

However, until we seek official approval of this status, the company must use 25% of scheduled tax rate instead of the current preferential tax rate. As a result, the effective income tax rate applicable to the company was significantly higher in the second quarter of 2008 compared with the corresponding period in 2007.

Diluted earnings per ordinary share for the second quarter of 2008 was RMB15 cents, or \$0.02, whereas earnings per share per ADS were RMB45 cents versus RMB26 cents in the second quarter of 2007. Our net income, excluding share-based compensation and amortization of the intangible assets, for the second quarter of 2008 was RMB12.8 million, or \$1.9 million, compared with RMB15.5 million for the corresponding period in 2007.

Our pretax and minority interest earnings increased by 21.8% to RMB27 million versus RMB22.2 million in the second quarter of 2007. Non-GAAP net income was RMB12.8 million in the second quarter of 2008 versus RMB15.5 million in the second quarter 2007.

On slide 13 now you will see our balance sheet remains strong. Our cash and cash equivalents as well as term deposits total RMB433.7 million, or \$63.2 million, and our amount due from related parties was RMB168.6 million, or \$24.6 million, most of which should be collected by end of next quarter.

Let me now discuss our financial outlook, shown on slide 15. For the third quarter of 2008, we expect to report total net revenue of RMB78 million, or \$11.4 million, to RMB80 million, or \$11.7 million, representing an increase of 20% to 23.1% compared with total net revenue in the prior-year period.

This concludes our review of our financial performance. Before opening the call to questions, I'd like to inform you that we will be presenting at the Susquehanna Second Annual Management Event on September 11th at Grand Hyatt Hotel in Beijing. If you are attending this conference, we invite you to meet with us in person. With that, I would now like to open the call to questions. Operator?

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS). Your first question comes from the line of Mark Zgutowicz of Piper Jaffray. Please proceed.

Mark Zgutowicz - Piper Jaffray & Co. - Analyst

Good evening, just a few questions. First, can you just provide a little more clarity on the strategic direction of the K through 12 schools? And specifically, you mentioned the Jingzhou school. I'm just curious what type of things you're looking at there, possibly a little more clarity?

Shawn Ding - ChinaEdu Corp. - President, COO

Hi, Mark. This is Shawn. For K-12 as the business line, the company is not aggressively developing more schools. Once again, our priority and our core business is the Online Degree program, and we will focus the primary resources on that, so the K-12 school development -- or the business line, rather, is purely an opportunity play for us. A few years ago, there were certain good opportunities, so we captured the opportunity. At this point in 2008, we are not planning to opening up more schools.

For the Jingzhou school, particularly, like we said, we don't really have a decision how we do about with the school at this point. We're in the process of evaluating and talking to the local government about what we do with it. Since we missed the construction schedule due to snow storm, the school was not able to open for students by September this year, so we suspended the construction. We will see what we do with the school in the long term.

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

So, Mark, the decision for us, whether we will start construction, should be made by the end of the year.

Mark Zgutowicz - Piper Jaffray & Co. - Analyst

Okay, that's helpful. And then just in terms of learning center revenues, I'm just curious if you could maybe provide a little more clarity on sort of the visibility and timing of that revenue opportunity and also relating to Q4, if there's any inclusion of learning center revenues in your guidance?

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

For the learning center, we are positive in the long-term growth, and we're expecting to make cash break-even in a year or two. For this year, we will definitely have revenue coming in from the learning center business, but of course how the revenue will be recognized based on the U.S. GAAP is still under discussion with Deloitte.

Mark Zgutowicz - Piper Jaffray & Co. - Analyst

Okay. And then, just a couple of housekeeping items, in terms of the second half '08 tax rate and stock comp, can you provide a little guidance there as to what we should be looking for? And then also as it relates to selling and marketing and G&A, should we be looking at those items sort of flat in the second half, relative to the second quarter run rate?

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

Mark, can you repeat that question?

Mark Zgutowicz - Piper Jaffray & Co. - Analyst

Sure, just wanted a little more clarity as to what we should be modeling for the second half in terms of tax rate as well as stock comp, and also relating to selling and marketing and G&A how we should be modeling those items in the second half. Should we be looking at something sort of flattish as it relates, in absolute dollars, relating to Q2?

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

In terms of the tax rate, I would suggest to use the similar rate, which the second quarter occurred. Second quarter, I think that the effective tax rate is around 38.5%. I would use that rate as the reference for the future two quarters.

Mark Zgutowicz - Piper Jaffray & Co. - Analyst

Okay.

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

In terms of G&A and other expenses, there are going to be some fluctuations quarter to quarter, but that's nothing to change significantly. And if you want, we can probably provide information once we can double-check the number.

Mark Zgutowicz - Piper Jaffray & Co. - Analyst

Super, thanks. I will jump back in the queue.

Shawn Ding - ChinaEdu Corp. - President, COO

Thank you, Mark.

Operator

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

Scott Schneeberger - Oppenheimer & Co. - Analyst

Thanks, good evening. Just to start out, obviously the Ministry of Education's a bit distracted with a lot that's gone on this summer. But, is there any update with regard to approvals of new Online Degree universities? Have you had any communication with them and any updates on that front? Thanks.

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Shawn Ding - ChinaEdu Corp. - President, COO

Thanks, Scott. I know that question's going to come up. The Ministry of Education, as many other central ministries in China, are all distracted by many things going on right now. We certainly have had a lot of communications with them, but unfortunately there's really nothing that I can report in terms of the progress for the approval from the universities for Online Degree licenses.

Scott Schneeberger - Oppenheimer & Co. - Analyst

Okay, thanks Shawn. Now you do have a few universities that you pursue that aren't approved yet. Obviously you're still hopeful that that will come through at some point in the future, are you still actively pursuing potential JV partnerships with other schools you feel are good candidates? Or is that something that you're putting on hold for now and just kind of waiting for the government?

Shawn Ding - ChinaEdu Corp. - President, COO

We are aggressively talking to a number of schools that have already been approved with the license for them to become comprehensive service partners, whether it's a JV partner or a technical service partner to ChinaEdu. We are however not talking to universities, which does not have a license at this point. We have three top-notch schools in the queue already, and we think they're good enough for us at this point.

On a separate note, we are also talking to a lot of schools about becoming our learning center network partners so that we can provide recruiting and technology and other support services to them. I hope that's helpful.

Scott Schneeberger - Oppenheimer & Co. - Analyst

It is, thanks. Okay, I guess I may have missed it, and you may have said it earlier. You last call had discussed potentially going into vocational education. And I think I caught the tail end that you may have updated us on this call and I apologize for missing a moment or two on there, could you give us an update on that, please?

Shawn Ding - ChinaEdu Corp. - President, COO

Sure. Actually, I did talk about it earlier in this call. One thing I want to really make our investors understand is that ChinaEdu has lots of resources in the education field. We really recognize the potential in the professional training market in China, and we want to take up a strong foothold in that long term, but the way we are approaching that market is probably different from some of the other professional training company or other training company.

The way we are approaching the market is that we want to build a sustainable and long-term gross business model that is really relate and complement to our Online Degree program. And it also can leverage the resources and the brand name of our online university partners so that we can have the training business not only be a profitable and sustainable business by itself, but it could also help our Online Degree program.

So we're in the process of talking to some of the top-notch IT companies in China right now, for example. And we're also talking to some other potential partners so that we can design a business model that is truly sustainable and successful in the long term.

As I mentioned earlier, we are taking this very seriously and also very prudently, and we want to be careful and design the business model so that it can be successful for us, not only for 2008 but for many years to come. So in terms of revenue or our profit or something like that, we are in the early stage of doing that. So we have nothing to report on that front at this point.

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Okay thanks, Shawn. Obviously you've had some nice growth in your LC area. Could you refresh us on what type of goals you have for number of learning centers at certain milestones in the future and what type of mix you anticipate having with regard to franchise versus company and kind of your decision as how the build-out goes there?

Shawn Ding - *ChinaEdu Corp. - President, COO*

Okay. We don't really want to develop a lot of wholly owned learning centers at this point. That's why we are doing the franchise model. The reason being that doing the wholly owned learning center is actually slower than doing the franchised business model in terms of reaching a certain scale. And that's why we in the first half of this year in addition to building up the wholly owned learning centers we are branching out and doing the franchised model.

Of course the wholly owned the learning centers would probably, or potentially, could be much more profitable for us in the long term and it's much more controllable, if you will. And management wise, I think we can standardize. We can accumulate a lot of experience, for example, but the franchise model also has its advantage.

In terms of milestones, we are not planning to build lots of wholly owned learning centers this year. We may do a few more for this year, for 2008, and we are going to do certainly a lot more franchised learning centers. We could be reaching the number of somewhere around 50 to 60 learning centers by the end of this year. I think that is our objective. Does that answer your question?

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Yes. No, that's great, Shawn. One final follow-up, as far as tax rate for the second half of this year to model similar to what we experienced in this quarter, I'm just curious when you anticipate any approval for, let's say, a beneficial tax rate from the government. Just any idea if that will be something that we'll be able to recognize in '09? Thanks.

Julia Huang - *ChinaEdu Corp. - CEO, Acting CFO*

The application starts in September, so we are actively preparing all the material to submit it for full September. So we're expecting to get the information back but around the beginning of next year.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Okay.

Julia Huang - *ChinaEdu Corp. - CEO, Acting CFO*

But of course, this is something relatively new, so it's really hard to project or [expect] to see the schedule.

Shawn Ding - *ChinaEdu Corp. - President, COO*

So that's our best guess, Scott.

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Understood, and that's very helpful. Thanks, a lot. That's all for me.

Shawn Ding - *ChinaEdu Corp. - President, COO*

Thank you.

Operator

Your next question comes from the line of Richard Safranek with Wafra Investment Advisors. Please proceed.

Richard Safranek - *Wafra Investment Advisory Group - Analyst*

Hi. Thanks for hosting the call, and congratulations on a good quarter. I just had a couple of questions, more balance sheet type questions. Of the \$5 million share buyback that you authorized, how much if any of that has been executed thus far?

Julia Huang - *ChinaEdu Corp. - CEO, Acting CFO*

We have been purchasing from the open market since the middle of July.

Richard Safranek - *Wafra Investment Advisory Group - Analyst*

Yes.

Julia Huang - *ChinaEdu Corp. - CEO, Acting CFO*

So as of today, we have purchased about 210,000 shares of ADS for purchase price of about 0.8 million, and we will continue to repurchase shares at the corporate.

Richard Safranek - *Wafra Investment Advisory Group - Analyst*

All right, thank you. The other question is that --

Shawn Ding - *ChinaEdu Corp. - President, COO*

All right just a quick comment on that, Richard, if I may. You do understand that we are limited by a certain number of shares we can buy every day.

Richard Safranek - *Wafra Investment Advisory Group - Analyst*

Sure, sure, sure. And the other question was just if you could maybe amplify the line about the amounts due from related parties? Obviously, that's a fairly sizable amount in your current assets and has bounced around at varying levels. Could you maybe give a little more clarity on that and also how quickly you would anticipate some of that can convert to cash?

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

Yes. Typically, our cash collection quarter is Q2 and Q4, and then the institution revenue first will go through the school account. And the school will transfer the money over to us, typically during the third quarter.

Richard Safranek - Wafra Investment Advisory Group - Analyst

Yes.

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

Or, the earliest it can get into is end of Q2, so we'll expect the majority of the due from the related party will come to our company by end of the third quarter.

Richard Safranek - Wafra Investment Advisory Group - Analyst

Okay. All right, thank you very much.

Shawn Ding - ChinaEdu Corp. - President, COO

That is very difficult for how the money flows, and you will see that probably in the following quarters and the following years as well.

Operator

(OPERATOR INSTRUCTIONS). And your next question is from the line of Mark Marostica of Piper Jaffray. Please proceed.

Mark Marostica - Piper Jaffray & Co. - Analyst

Thank you.

Shawn Ding - ChinaEdu Corp. - President, COO

Hey, Mark.

Mark Marostica - Piper Jaffray & Co. - Analyst

Hi there, Shawn and Julia. My first question is related to your press release earlier of the launch of 32 additional learning centers. I think you mentioned 13 of those have already launched services in the recruiting area. For the balance, when do you expect to have those launched, recruiting services?

Shawn Ding - ChinaEdu Corp. - President, COO

I think they have, if I'm not mistaken, all have started recruiting services for the fall recruiting season. If not all of them, the majority of them should have started.

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Mark Marostica - Piper Jaffray & Co. - Analyst

Okay. And then regarding the eight new university partners, I was wondering if you could help us frame the revenue opportunity there? When should we expect to see those partnerships start generating revenues for the company?

Shawn Ding - ChinaEdu Corp. - President, COO

Some of them started generating revenue for us, even though that the amount may not be significant, in the first half of the year. The rest of them, most of them should have contributed revenue to us starting from the full semester. But however, how the revenue should be recognized, as Julia mentioned, we're still discussing that with Deloitte.

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

Mark?

Mark Marostica - Piper Jaffray & Co. - Analyst

Yes.

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

The contract we signed with university is that about 45% to 55% of the tuition revenue will be the service fees for our recruiting and technology services. It's based on the number we recruited for them, so we believe in the longer term, the number can go up bigger and bigger because the students will stay average to five years. So the student base will gradually grow bigger.

Mark Marostica - Piper Jaffray & Co. - Analyst

Are there any guaranteed minimums with those contracts?

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

No, we don't have any minimum guarantee.

Shawn Ding - ChinaEdu Corp. - President, COO

You mean a minimum guarantee from either party? No, there's nothing like that.

Mark Marostica - Piper Jaffray & Co. - Analyst

Okay. And I understand they're not exclusive, correct?

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

Yes. They are not exclusive.

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Shawn Ding - ChinaEdu Corp. - President, COO

Well, they are exclusive for that particular city we're recruiting for them.

Mark Marostica - Piper Jaffray & Co. - Analyst

Okay, I see.

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

It's not exclusive between the company and the university.

Shawn Ding - ChinaEdu Corp. - President, COO

Correct.

Mark Marostica - Piper Jaffray & Co. - Analyst

Okay. And then one last question on the cost of services line for Online Degree services. You've got some nice leverage there this quarter. Is there any reason why we shouldn't expect to see continued leverage there from higher enrolments.

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

I think the revenue, we do scalabilities in our online model, and especially from online programs. So ongoing basis, we'll maintain the similar gross margin. But for the projection purpose, I would suggest to be a little bit conservative.

Mark Marostica - Piper Jaffray & Co. - Analyst

And is there any notion as to why you have a dose of conservatism there? Is that just general conservatism? Or, is there anything that might influence specifically the results?

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

Generally, really general.

Mark Marostica - Piper Jaffray & Co. - Analyst

Okay, very good. Thank you.

Shawn Ding - ChinaEdu Corp. - President, COO

Thank you, Mark.

Aug. 20. 2008 / 8:00AM, CEDU - Q2 2008 CHINAEDU CORP Earnings Conference Call

Operator

At this time, there are no further questions. I would like to turn the call over to management for closing remarks.

Julia Huang - ChinaEdu Corp. - CEO, Acting CFO

Ladies and gentlemen, let me close by reiterating how much we appreciate your interest and support. We are committed to delivering consistent and strong results by executing our strategy, and we are confident that our strategy is the right one to keep us at the top of our industry. We look forward to keeping you apprised of our progress. Thank you, and have a good day and good night.

Shawn Ding - ChinaEdu Corp. - President, COO

Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a good day.

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