

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call**

Event Date/Time: Nov. 25. 2008 / 8:00AM ET

Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

## CORPORATE PARTICIPANTS

**Jimmy Xia**

*ChinaEdu Corp. - Manager - IR*

**Julia Huang**

*ChinaEdu Corp. - Chairman, CEO*

**Shawn Ding**

*ChinaEdu Corp. - President, COO*

**Lily Liu**

*ChinaEdu Corp. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Mark Marostica**

*Piper Jaffray - Analyst*

**Scott Schneeberger**

*Oppenheimer & Co. - Analyst*

## PRESENTATION

**Operator**

Welcome to the ChinaEdu Third Quarter 2008 Financial Results Conference Call. At this time, all participants are in a listen-only mode. Following management's prepared remarks, we'll hold a Q&A session.

(Operator Instructions)

As a reminder, this conference is being recorded November 25th, 2008. 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 call. Joining me today are Ms. Julia Huang, Chairman and CEO, Mr. Shawn Ding, President and COO and Ms. Lily Liu, CFO.

After the close of the US markets on Monday, ChinaEdu issued a press release announcing its 2008 third quarter financial results, which is available on the Company's IR webpage at [www.ir.chinaedu.net](http://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, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

Nov. 25. 2008 / 8:00AM, CEDU - Q3 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 in documents subsequently filed by the Company from time to time with the SEC.

Unless required by law, the Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. I would now like to turn the call over to our Chairman and CEO, Ms. Julia Huang. Following our prepared remarks, we will be happy to take your questions. Julia.

---

**Julia Huang** - *ChinaEdu Corp. - Chairman, CEO*

Thank you, Jimmy. Good morning and good evening. Thank you for joining us today. We are pleased to report our third quarter strong operational results, with total net revenue of RMB82 million, or \$12.1 million, which represents 25.4% year-over-year growth. Our core business, online degree programs, marked significant growth, at a rate of 34.4% year over year.

The solid revenue results exceeded our top-line guidance and was primarily driven by the strong growth in revenue students in our online degree programs. Our gross margin has also expanded in a year-over-year comparison. Online degree programs margin in this quarter was 70.5%, significantly higher than the 61.9% in the third quarter of 2007.

Similar to the last year, recorded our goodwill impairment charge in the international curriculum program. We'll provide information later. However, our adjusted operating margin expanded significantly compared to the last year, from 18% to 26%. Here I would like to clarify [adjustment] measures for you. It is to exclude certain non-cash items, such as share-based compensation, amortization, goodwill charge and one-time receivable writeoffs which happened in the third quarter of last year and a currency exchange loss occurred this quarter.

Adjusted EBITDA increased significantly, by 75.6%, from RMB14 million in the third quarter of 2007 to RMB24.6 million this quarter, this third quarter. Adjusted net income increased significantly, from RMB3.2 million in the third quarter of 2007 to RMB7.4 million in the third quarter of 2008, by 129%. Let's now turn to Shawn Ding, our President and COO, for business and operational highlights, followed by Lily Liu, our CFO, for financial highlights. Shawn?

---

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

Thank you, Julia, and thank you for joining us today. Since our last call, many events have transpired, both in China and the rest of the world. Businesses are facing tremendous challenges. Even though ChinaEdu may also face unforeseeable difficulties, we are optimistic about the degree education sector in China. We think it will remain strong, with an excellent outlook.

We continue to focus on long-term organic growth through building our superior service and products. Let's now start with the slide four of the presentation. As Julia just mentioned, we had another successful quarter, led by enrollment growth from our online degree program.

Our revenue student number grew from 100,000 students to 125,000 students, compared to the same quarter last year. This shows that our organic growth engine is performing very well. Also in the quarter, we signed eight new partnerships with leading universities to provide recruiting and support services. By the end of the quarter, we had 10 wholly owned and 25 franchised learning centers in operation.

On the business development front, we are working very hard to develop new school partners with license from the Ministry of Education, and are having ongoing communication with the Ministry of Education regarding approval of the three schools we have collaborative alliance relationships.

Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

Overall, we are implementing various initiatives to improve operational efficiencies and are building organic growth. We believe the work we are doing today will not only benefit our short-term financial results and, as well, our long-term business prospects. Once again, online degree program is our core business, and it's our core focus.

At this point, I would like to share some highlights on the recent development within our core business. We recently signed a new 10-year exclusive joint venture contract with Guangxi Radio and Television University, to develop a provincial-level learning center network within the Guangxi Province.

We believe this regional network will give us a dominating position in providing recruiting and other services in Guangxi Province. More importantly, this will help us develop a new business model to work with local radio and television universities to set up regional learning center networks.

Secondly, we also signed a recruitment contract with the Xiamen University, one of the leading universities in Fujian Province in South China, to further leverage our learning center network. In addition to the nine recruitment contract partners, our learning center network is also serving five out of the nine collaborative alliance partners, or JV partners.

Altogether, this brings our learning center network's recruitment contract university partners to 14. In addition to the Guangxi partnership network, we are also aggressively expanding our learning center network nationwide. We expect to have around 50 self-owned and franchised learning centers by the end of the year.

Moving on to slide five, I would like to again emphasize our growth strategy for online degree programs. First of all, we will focus on growing our existing programs, the nine licensed collaborative partners and help the other three collaborative partners to receive MOE approvals.

Secondly, we will continue to develop new long-term exclusive collaborative alliances with schools within the existing 68 schools that were licensed. We will also expand our learning center network by improving the execution of our current sites, as well as an expansion of geographic coverage. We will also seek to build more regional partnerships, like the one we have done in Guangxi Province, expand relationships to outside of the 68 universities. To form partnerships once Ministry of Education restarts the license approval process will also be important to us in the long run.

With this strategy, we believe we can build the Company's long-term sustainable growth, as well as our continued dominant transition in China's online degree market. Through slide six, I hope I can further demonstrate our abilities to deliver and the future potentials of ChinaEdu.

ChinaEdu was founded in 1998 on the idea of providing online education in China. Over the past 10 years, we have grown along with the growth of the industry. We have long become the number-one player in the online degree education market in China. Our brand name and all the intangible assets we have accumulated in the past 10 years makes ChinaEdu the partner of choice in the online degree market.

ChinaEdu has exclusive relationships with nine out of 68 universities that were approved for online degree programs, as we mentioned before. We are serving the largest student body in China, with registered students well over 200,000. ChinaEdu is also the only player that has the exclusive collaborative alliance business model. ChinaEdu is the only player that provides a turnkey solution with fully integrated vertical – fully vertically integrated functions. This would better serve not only our university partners, but, most importantly, the students.

ChinaEdu is one of three institutions that have been given approval to establish a nationwide learning center network. With these competitive advantages, we believe ChinaEdu is in a position second to none. We're now focusing on growing within the online degree sector.

Nov. 25, 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

We believe our market position, experience and technology, particularly our user base, will enable us to potentially capture opportunities in non-degree-based online education areas as well. Now, allow me to direct your attention to slide seven, and allow me to give you an update on our emerging business lines.

Our online tutoring program is focusing on operational improvements, particularly in the sales channel and the range of new products offered to students. In addition to passing ISO9000 certification, our newly released products started gaining traction. Our pre-school educational product, called [Yu-Yu Bear], was launched in the third quarter, as well.

Our international curriculum programs have been steady in performance and the existing programs are in line with expectations. We are also seeking more international partnerships for future growth.

Our K-12 business is well on track and is expected to generate a steady revenue growth. The Anqing School's new campus was finished. The first phase of the Anqing new school was finished and started the fourth semester enrollment. The second phase will begin soon. Anqing and the pending [Shen] school operations are well underway. Our Jingzhou school construction is still on hold. Considering the CapEx-related issues, we are open to strategic alternatives for this school.

Many investors have asked us about our plans for learning center network. So I'd like to take a minute and share with you our thoughts and the latest progress, particularly on this issue. The development of our learning center network is a key strategic objective. It provides a strong vertical integration opportunity for ChinaEdu, and we are actively pursuing the expansion of both wholly owned and franchised learning centers.

These learning centers are in place to provide recruitment and support services for our online degree programs. This is dictated by the regulations of the online degree education authorities.

These learning centers will also serve as channels for other business lines, as well. Additionally, the learning centers will help drive our top-line growth by capturing a material portion of per-student university's 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 competitive advantage.

As you can see from the timeline on this slide, we started to build the network in 2007. Due to the recruiting season, our learning centers started to get into full operation mode in Q4 2007, but more so in the first half of this year. In the second quarter, in addition to the 10 wholly owned and the 12 franchised learning centers -- that's what we had in the second quarter.

By the end of the third quarter, we had 25 franchised learning centers, so that brings us a total of 35 learning centers. Once again, we expect to have a total of 50 in operation by the end of this year. During the expansion, we also experienced a cost increase. The increased costs in Q3 were mostly attributable to the expansion of the learning centers, as the learning centers -- as all of the learning centers start to kick into operation for the fall enrollment season.

As we continue to expand our learning center network, costs and expenses related to it will increase accordingly, but strategically important as it is, we are watching carefully to make sure that it is accretive to our profitability. Therefore, we are controlling capacity and cost quite rigorously.

In short, we are taking an aggressive but conservative approach to build a strategically important service and recruiting network. In the ramp-up phase, we emphasize scale, but with tight control on cost and profitability. We will strike the balance for profitability.

To conclude my remarks, I would like to assure our investors that 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 generate solid growth. With Lily Liu joining us as our CFO and Julia starting to devote 100% of her time to leading the Company, our management team is well equipped to lead the Company into the next phase of growth. Now Lily will review some of the key financial information from the quarter. Lily?

Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

**Lily Liu** - *ChinaEdu Corp. - CFO*

Thank you, Shawn. Now I will go through our major line items in more detail. First, let's talk about our top-line net revenue on slide 10. Our online degree program continues to be the core of our business. Net revenue growth for online degree programs was 34% year over year. Revenue contribution from online degree programs was 80% in the quarter, which is a slight increase compared to 74% in the third quarter last year.

Also in this quarter, our Anqing school completed Phase I construction of the new campus and therefore began fall recruiting, which had a positive impact on net revenue. In the quarter, one-on-one online tutoring business net revenues declined compared to last year. The business is undergoing an internal reorganization. In the short term, we may not be able to see an immediate increase in revenue. However, we continue to believe in the long-term growth potential of this business and have continued to invest in new products, as well as marketing and sales in the division.

Lastly, for the international curriculum program net revenue declined slightly, compared to 3Q '07. We experienced a new regulatory environment since around the middle of 2007, which has impacted our revenue in the quarters since. However, we are seeking new foreign partners or international partners in order to be completely compliant and to maintain the growth in the business.

I want to note here that the quarter's net revenue, compared to the second quarter, seemed to have increased significantly. It's mainly due to summer student travel group revenue. There are usually student travel revenues generated during the winter and summer school holiday season.

Next, let's take a look at our gross margin. Our gross margin on a year-to-year basis for each quarter has consistently expanded in 2008, compared to 2007. For online degree programs, this quarter, compared to second quarter, recorded a significant increase in cost of revenue, primarily due to third quarter increased costs in learning center network, as well as establishment of a new subsidiary at one of our JVs.

Now let me talk about the other lines for the gross margin. Private schools recorded a higher cost of revenue due to a one-time special employee bonus. The normalized margin should be much higher than this quarter's. For the one-on-one online tutoring business, gross margin has remained relatively stable.

International curriculum gross margin improved significantly, as we no longer have previous year's one-time charges. I'd like to add a general comment here. You can see from the chart, just from the past three quarters, that our gross margin actually fluctuates somewhat from quarter to quarter.

There are certain seasonal patterns here. For example, quarter three gross margin, or third quarter gross margin, tends to be lower than the other quarters due to higher marketing expense during the summer and certain graduation-related costs at the universities. That's why you see a third quarter dip compared to first quarter and second quarter.

Now let's turn to slide 12, and I will talk about our operating income results. GAAP operating income was negatively impacted by a goodwill impairment charge of RMB17.9 million for the international curriculum program.

This impairment resulted from a couple of factors. First, compared to 2007, we reduced the growth potential of the program, due to new regulatory restrictions for both FEC and BCIT since around the middle of 2007. This caused a slight decrease in the number of partners at FEC and it actually restricted expansion with the existing programs at BCIT for this year.

Secondly, for assessment of the fair value of this division, a market valuation of selected US competitors also weighed in, and given the current market conditions, the lowered valuation for our US competitors also caused a lower valuation for our division.

Nov. 25, 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

I want to mention that we have -- the management is actively seeking new international partners to get around the regulatory issues, and for this division we're confident that the long-term growth potential can be maintained. Even after reduced growth, I also want to note that this program has always generated positive cash flows for the Company.

In terms of the goodwill charge, we have been working with American Appraisal, and this number is a preliminary assessment for the third quarter. The finalized impairment charge for all of the divisions will be in place by the year end, in the fourth quarter release.

So, excluding this non-cash goodwill impairment charge, on an adjusted basis our operating results actually have improved significantly from the third quarter of 2007. After adjusting for certain non-cash and one-time charges, our adjusted margin improved from 18% to 26% this quarter. For this quarter, in terms of the breakdown of the operating expense, I'd like to note that our sales and marketing expense increased significantly compared to third quarter last year due to a TV marketing campaign and one-on-one online tutoring program and a one-time marketing event at one of our JVs.

Otherwise, the other line items of the operating expense have remained relatively flat. Our G&A expense, as well as our R&D expense, have both decreased slightly compared to the same quarter last year.

Now let's turn to slide 13 and take a quick look at our EBITDA. Again, GAAP EBITDA was negatively impacted by the goodwill impairment charge. However, on an adjusted basis, our adjusted EBITDA increased significantly, from RMB14 million in the third quarter last year to nearly RMB25 million this quarter.

For the adjusted EBITDA margin, it also improved significantly, from 21% last year to 30% this quarter. For the net income, on slide 14, again, I'd like to focus on adjusted measure, as I believe it's a much better reflection of how our Company's operations have been performing. Adjusted net income was RMB7.4 million, which is more than double, compared to RMB3.2 million same quarter last year.

If you look at the chart, even if I exclude the impact of interest income from IPO proceeds, our adjusted net income still increased by 57% compared to the same quarter last year. Our net income and adjusted net income was impacted by the higher tax rate this year compared to last year. I'm sure we have touched upon this issue in the past quarters. I'd like to just reemphasize that we are still in the process of applying for the high-tech tax status, which will allow us a statutory income tax of 15%, rather than 25%, under the new tax law that came into effect this year.

The process is ongoing, as the government comes out with detailed rules for enterprises in each city. In the meantime, that is for all 2008 we still must use 25% to calculate our income and deferred tax. We're confident that we will eventually receive the tax status, the new tax status.

Regarding the 2008 statutory rate in Beijing, particularly in Beijing, the government still has not made a decision concerning the application process has been delayed, due to a delay in the publishing of the detailed rules, so we're still waiting to hear from the government.

I also want to mention that minority interest of RMB7.4 million increased significantly from the same quarter last year, which was RMB5.1 million. This actually reflects significantly better profitability for our JV programs.

So that's a quick walkthrough for our P&L line items for the quarter. Let's now take a quick look at our cash position and other balance sheet items. We're pleased to report that facing this global financial crisis, ChinaEdu has a very strong cash position. Combined, if we look at cash and term deposits, term deposits are mostly six-month CDs -- was RMB60 million this quarter, versus RMB63 million at the end of the previous quarter. As you can see, we have increased the amount in term deposits in order to better manage our idle cash.

Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

Generally speaking, our cash management policy is very conservative. We currently do not have any investments in risky investments. All of our cash is invested in safe principal-guaranteed products. In the third quarter, against the positive operating cash flows of RMB42 million, we had a few major cash outflow items, which I want to note here.

First is open-market share repurchase. Out of the \$5 million authorized, we used up about \$2.2 million in the third quarter. Total number of shares bought back so far from the open market was around 715,000 shares. Second major cash outflow was the mortgage repayment. We paid off the remaining mortgage on our headquarters, which was our headquarter real estate in Beijing. That cost \$3.5 million, and we no longer have long-term debt or any mortgage remaining.

The third item is \$2.5 million of increase in PP&E. The two major items, one is the phase one construction at Anqing School, which we mentioned before. The second was RMB5 million for a small real estate -- for a small office for [Deni] University. I want to emphasize that our business has consistently delivered positive cash flows and we're very comfortable with the amount of cash that we have at the Company.

As for the rest of the balance sheet, we can see that it's pretty straightforward. A few items to highlight here. One particular item is amounts due from related parties. At the end of the third quarter, this was RMB127 million, and versus RMB169 million at the end of the second quarter.

Internally, we believe this item is another measure that reflects our strong cash position. This is cash that's parked at our JV universities that we have not yet collected. And secondly, if you notice that historically -- if you are looking further back in history, this item, amounts due from related parties, has fluctuated somewhat. It means that we pace ourselves in terms of collection and also once the enrollment seasons come in, there's going to be more cash coming into this item.

We consider the counterparty risk to be very small for the JV programs, and sometimes we pace our collection also for certain tax-planning purposes. So I've said enough about this item. The key point is this large number we believe is another measure that reflects our strong cash position.

Another item to note on this table is deferred revenue. Our deferred for the third quarter decreased considerably compared to the second quarter or the fourth quarter last year. This is due to seasonality of our business. Tuition is generally collected in spring semester, or Q1, and fall semester, in other words, Q4, which then generally gets amortized over the six months in each semester. Otherwise, I think the last item I want to highlight again here is that our long-term debt has been paid off. That was the mortgage payment on our real estate.

So I think that's a wrap up for our P&L and balance sheet for the quarter. Finally, let's talk about our revenue guidance for the fourth quarter. We expect total net revenue to be in the range of RMB82 million to RMB85 million, and if we use 6.83 as the exchange rate, this translates to approximately \$12 million to \$12.4 million.

And, lastly, I want to take this opportunity to share good news with all of you, which I'm sure many of you have seen from the press release that we did earlier, just prior to this call, that we bought back the outstanding shares owned by Tiger at 3.95 per ADS, which was the closing price on November 19th that was used for the transaction. They also owned -- prior to this transaction, they also owned the warrants to purchase approximately 1.8 million shares, and all of these warrants will be completely canceled in connection with the transaction. This transaction will cost us a total of \$11 million.

We actually believe that at this market price, at this price, this presented a very attractive opportunity for us to accelerate our share buyback program and this transaction will be immediately accretive to our EPS. So that's it. Thank you very much.



Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). And your first question comes from the line of Mark Marostica of Piper Jaffray.

---

### Mark Marostica - Piper Jaffray - Analyst

Thank you, and nice job on the quarter. First question I have is related to the three collaborative partnerships that you have that have not yet been approved by the Ministry of Education. Can you give us an update on the steps you're going through for approval and when you think those three will be approved?

---

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

Mark, this is Shawn. I knew you were going to ask that, either you or someone else, but you took the -- you asked first. Once again, we don't have anything that we can definitively tell you today. It's still in the process. The Ministry of Education is working on a bunch of things to formulate a long-term strategy for continuous education, as well as online degree programs.

There are lots of things going on right now, and we are having very close communication with them, but I wish I can give you a more definitive answer, but unfortunately not. At this point, all I can tell you is that we're working hard on that. It's very, very important to ChinaEdu with the license, with the three pending licensed universities, it will give us additional organic growth opportunity. So it's on the top of our priority list, I can assure you that, and we are very, very, very concerned about if and when we can get the license. We are confident we will get them, though.

---

### Mark Marostica - Piper Jaffray - Analyst

And, Shawn, in order to influence these spring enrollments, when do those approvals need to actually be cemented? For fall enrollments.

---

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

Before February next year, that time.

---

### Mark Marostica - Piper Jaffray - Analyst

Okay. Okay, very good.

---

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

End of February.

---

### Mark Marostica - Piper Jaffray - Analyst

Okay. Just a second question. Given that we're now into the fall recruiting season, curious as to what your sense is in terms of growth in the fall relative to your expectations or any other color you can provide us on the overall growth trajectory in the fall.

Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

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

Mark, you know obviously we cannot give you any specific numbers at this time, but we feel pretty good about it.

**Mark Marostica** - Piper Jaffray - Analyst

Okay. And on the learning center operation, I can see that you're very focused on expanding the number of franchisees through the end of the year. Can you give us an update on profitability of the learning center operation at this point and what you think the right balance of learning centers is to achieve your profitability targets?

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

Well, I hope I didn't confuse you by using the word balance. What I meant was we are controlling the speed of growth, because we want to have the wholly owned and the franchised learning centers to be profitable, to formulate the process, to completely build the operational model, service model and to make them as solid as possible to pave the way for long-term future growth.

So, for example, some of the learning centers right now, we have right now, are profitable. For those, we want them to be more profitable. For those who have a shorter history, they may at this point -- accumulatively are not profitable yet. But they will be profitable in 2009. So with the limited resource that we can put into this operation, we don't want them to grow at a speed that it's out of control, so that's what I mean by the word balance.

**Mark Marostica** - Piper Jaffray - Analyst

Is it your sense that once you reach the 50 number that you'll slow down the number of additional franchisees, or how are you thinking about the number of franchisees in your network of learning centers?

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

No, I don't think we will slow down, though, in 2009. We will grow and expand the franchise model in 2009. Actually, we are doing things in preparing for that right now. But it's not like the number of -- how many learning centers will make us profitable or below that will make us lose money. It's really up to the individual learning centers' operation that will determine the overall profitability.

So, if, for example, 80% of the learning centers are profitable, or 50% of the learning centers are profitable, then the overall learning center network will be profitable. So we're focusing on individual learning centers' operational efficiency.

**Mark Marostica** - Piper Jaffray - Analyst

Shawn, maybe one last question on this topic. Can you give us a sense of time to profitability for your average learning center?

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

It really depends. If you ask me about an average, I think it's about 12 months. That's as good of a guess --

Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

**Mark Marostica** - Piper Jaffray - Analyst

And then one last question, perhaps directed to Lily, and that is on the goodwill impairments charge, can you give us a sense what that charge is after tax?

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

Goodwill impairment charge.

**Lily Liu** - ChinaEdu Corp. - CFO

Let me take a look.

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

Mark, while Lily looks that up, let me go back to your last question. The learning centers, it's really hard to give you an average timeframe in which a learning center can be profitable, at what time. It differs because of the program it's offering service to, and it's because of the area it's in, and so there's lots of influential factors that's affecting the performance of that learning center. We have a learning center that's very profitable in three months, and that is also part of our network. I don't know if Julia has anything to comment on that.

**Julia Huang** - ChinaEdu Corp. - Chairman, CEO

Mark, the learning center business, we're expecting to get all the learning centers next year to breakeven or slightly profitable. That's our goal. Each individual one, especially during the early stages, it's depending on the size of the learning center. So, some of them, the size is small in terms of rent and people, they could be making profitability earlier, but the learning centers in the major cities, which have a big rent, it takes us slightly longer.

**Mark Marostica** - Piper Jaffray - Analyst

Okay, great, thanks for the color.

**Lily Liu** - ChinaEdu Corp. - CFO

Mark, I want to address your question. For the goodwill charge, it's on the group level, so there's really no tax effect on the goodwill. If we were to calculate an after-tax goodwill charge, I guess we should use the 25% statutory rate, to calculate the after-tax charge.

**Mark Marostica** - Piper Jaffray - Analyst

Fair enough. Thanks, Lily.

**Lily Liu** - ChinaEdu Corp. - CFO

Sure.

Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

**Operator**

(Operator Instructions). And your next question comes from the line of Scott Schneeberger of Oppenheimer. Please proceed.

**Scott Schneeberger - Oppenheimer & Co. - Analyst**

Thanks. Good evening. A first question, in the core business, could you speak about pricing strategy? The enrollments were very, very strong. I assume you're keeping pricing relatively flat, but just some comments on that, please? Thanks.

**Julia Huang - ChinaEdu Corp. - Chairman, CEO**

Scott, this is Julia. The prices for right now, or in the past few years, is relatively flat. We reached prices in certain regions for a few schools in the well-developed areas like Shanghai, Beijing and Guangdong Provinces. At this stage, it's still at the stage that we're trying to increase more the number of students than to reach the price.

So for the areas which it's more affluent, we may increase the tuition price for the top-ranked schools. But for the less-developed areas, we probably will keep the price flat. So the increased room -- the percentage of increase are not too significant.

**Scott Schneeberger - Oppenheimer & Co. - Analyst**

Okay, thanks. Shifting to LCs, just following up on that topic. Getting to 50, I assume that's all going to be franchise, the subsequent 15. Any word on when you will be able to develop further company-owned LCs?

**Julia Huang - ChinaEdu Corp. - Chairman, CEO**

Scott, the company-owned LCs, we're only going to take the capital cities, each province's capital, so it will be limited. We're not going to aggressively expand unless the area, we know that it's going to have a sizable market.

**Scott Schneeberger - Oppenheimer & Co. - Analyst**

Okay. Okay, fair enough. Within the online degree segment in cost of goods, I understand the costs increasing on the buildout of the learning centers. I think, Lily, you might have mentioned a new sub at a JV. Could you elaborate on that, please?

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

Scott, we didn't really catch the question. Which sub JV are you referring to?

**Scott Schneeberger - Oppenheimer & Co. - Analyst**

You just mentioned in prepared remarks -- I think it was in Lily's part -- in the online degree cost of goods, there's a new subsidiary at a JV, and you'd mentioned that and higher costs due to learning centers were why costs were up. I was just curious if you could elaborate on what that new subsidiary at the JV was and what the quantification was.

Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

**Lily Liu** - *ChinaEdu Corp. - CFO*

That subsidiary actually is the subsidiary of a joint venture from Dongbei University of Finance and Economics. That subsidiary is intended to build the training programs to professionals like accountants and tax bureaus of the Dongbei area. They spend a lot of efforts in the training product development and also marketing events.

**Scott Schneeberger** - *Oppenheimer & Co. - Analyst*

Okay. Sounds good. Is that going to be an elevated cost in fourth quarter as well? And I assume continued LC buildout will contribute to a higher level of cost?

**Lily Liu** - *ChinaEdu Corp. - CFO*

I think the costs will go up as the revenue goes up, so we will not expect a significant increase for the Q4. From our historical pattern, typically, Q4's gross margin is slightly lower, compared with the other three quarters.

**Scott Schneeberger** - *Oppenheimer & Co. - Analyst*

Okay, and you think it will be consistent with historical patterns?

**Julia Huang** - *ChinaEdu Corp. - Chairman, CEO*

Right, the higher sales and marketing expense for this quarter was due to -- it was really a one-time marketing event for this new subsidiary.

**Scott Schneeberger** - *Oppenheimer & Co. - Analyst*

Okay, thanks. Just a couple more, and moving to some of the more emerging areas. In 101, you'd mentioned the internal reorganization and that may take time, is what I wrote in my notes, so I think you'd said something to that extent. How long for this reorganization process? Just a little more color there. Thanks.

**Julia Huang** - *ChinaEdu Corp. - Chairman, CEO*

We will expect there are some results coming up in a couple of years, because right now it's difficult to make a timeline for the financial results. But we are confident that after the reorg we should be more efficient and also we will build a strong sales team.

**Scott Schneeberger** - *Oppenheimer & Co. - Analyst*

Okay, thanks. So throughout '09 that is still going to be reorg'ing and looking for financial results perhaps in 2010?

**Julia Huang** - *ChinaEdu Corp. - Chairman, CEO*

The reorg should be done by a certain time this year -- next year. So we believe that we should deliver stronger results afterwards.

Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

**Scott Schneeberger** - *Oppenheimer & Co. - Analyst*

Okay, thanks. And then, finally, Jingzhou, just you had mentioned that you're open to strategic alternatives. It sounds like you're backing off that a bit. Can you just take us a little deeper on how that's going to develop. Thanks.

**Julia Huang** - *ChinaEdu Corp. - Chairman, CEO*

Given the labor and construction costs and other factors, we decided to temporarily hold off, to continue on the construction for the Jingzhou project, so we'll delay the project until next year.

**Scott Schneeberger** - *Oppenheimer & Co. - Analyst*

Okay, thanks, and nice work.

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

Thank you.

**Julia Huang** - *ChinaEdu Corp. - Chairman, CEO*

Thank you, Scott.

**Operator**

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

**Julia Huang** - *ChinaEdu Corp. - Chairman, CEO*

Ladies and gentlemen, let me close by reiterating how much we appreciate your interest and support. Chinese education industry is as likely as ever to succeed. We are committed to delivering consistent and strong results through growth and execution 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. Have a happy early Thanksgiving, and have a good day or good night.

**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

Nov. 25. 2008 / 8:00AM, CEDU - Q3 2008 CHINAEDU CORP Earnings Conference Call

**DISCLAIMER**

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2008, Thomson Financial. All Rights Reserved.