

FINAL TRANSCRIPT

Thomson StreetEventsSM

CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Event Date/Time: Aug. 20. 2009 / 12:00PM GMT



Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

CORPORATE PARTICIPANTS

Jimmy Xia

ChinaEdu Corp. - IR

Julia Huang

ChinaEdu Corp. - Chairman, CEO

Shawn Ding

ChinaEdu Corp. - President, Chief Operating Officer

Lily Liu

ChinaEdu Corp. - CFO

CONFERENCE CALL PARTICIPANTS

Mark Marostica

Piper Jaffray - Analyst

Jeff Lee

Signal Hill - Analyst

Echo He

Oppenheimer & Co. - Analyst

PRESENTATION

Operator

Welcome to the ChinaEdu second quarter 2009 financial results conference call. At this time, all participants are in listen-only mode. Following management's prepared remarks, we'll hold a Q&A session. As a reminder, this conference is being recorded August 20, 2009. I would now like to turn the conference over to the ChinaEdu Investor Relations Manager, Mr. Jimmy Xia. Please go ahead, sir.

Jimmy Xia - *ChinaEdu Corp. - 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 Lily Liu, CFO.

After the close of the US markets on Wednesday, ChinaEdu issued a press release announcing its 2009 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 the Company's 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 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.



Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 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 annual report on Form 20-F for the year December 31, 2008, filed with 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 ChinaEdu's Chairman and CEO, Ms. Julia Huang. Julia?

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

Thank you, Jimmy. Good morning and good evening. Thank you for joining us today. I would like to begin by stating that ChinaEdu's performance has again exceeded management guidance and beat our consensus during the second quarter of 2009. ChinaEdu has once again shown that the management team is more than capable of leading the Company to growth and success.

Our overall net revenue in the second quarter of 2009 grew by 11% to RMB88.3 million compared to the second quarter of 2008. Our net revenue for online degree programs was RMB71.4 million, which represents growth of 9.6% in the second quarter of 2009 compared to the second quarter of 2008.

The increase in revenue is mainly due to the 147,000 revenue students for our online degree programs. We are pleased to announce this result through organic growth from our existing business and product lines. Our adjusted EBITDA, which is a non-GAAP measure defined as net income before interest income, tax, depreciation, amortization, share-based compensation, and goodwill and intangible impairment charges, applicable in the second quarter of 2009 was RMB29.5 million compared to RMB31.8 million in the second quarter of 2008.

The slight decline is due to our investment in expansion of the learning center networks, as well as our investments in the K-12, land-based campus, and other businesses as well. Our GAAP net income attributable to CEDU decreased to RMB8.9 million compared to RMB9.2 million year over year.

Adjusted net income decreased slightly to RMB12.1 million. Our basic GAAP earning per ADS was USD0.081 in the quarter versus USD0.069 in the second quarter of 2008, which exceeded analyst consensus by USD0.03. The improvement from second quarter of 2008 was due to better operating results as well as a share count reduction.

Although there was a decline in gross profit, operating income, and net income in the second quarter of 2009 compared to the same period of 2008, the Company's margins for EBITDA, adjusted operating income, and net income remained stable in the first half of 2009 compared to the first half of 2008, which we believe reflects improvement in the Company's operations, given the expansion of the learning center network and the investment in the campus and other business.

We believe the efforts in learning center expansion, product development, and increase in service quality brought positive results for the Company in the first half of 2009. We also believe that focusing on our core business also focus our management's attention and resources in our online learning and education space provides us a solid foundation for long-term growth.

In turn it will bring the best return for our investment and increase shareholder value because we believe the business model brought in the scalability for us. Let's now turn to Shawn Ding, our President and COO, for business and operational highlights followed by Lily Liu, our CFO, for more financial highlights. Shawn?



Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Shawn Ding - ChinaEdu Corp. - President, Chief Operating Officer

Thank you, Julia. Good morning and good evening. And thank you for participating in today's call. During the second quarter of 2009, we continued to focus and develop on our strengths, specifically in online education programs. Now looking at slide five, as of the end of the second quarter, our learning center network consists of 35 contracted and 21 proprietary learning centers, making a total of 56 learning centers.

Comparatively, we had 29 contracted and 20 proprietary learning centers at the end of last quarter. Our learning centers met our six months objective and are well on track for the whole year. Also during the quarter, we continued our investment in courseware development, technology development, and for selected online degree programs. Through updates in technology and services, we are raising our university partners profile and contributing in the long-term growth of these programs.

From the business development perspective, ChinaEdu recently added two additional partners in the online education business. We recently signed Jiangsu University to a long-term technology and support agreement. Jiangsu University is currently awaiting MOE's approval for its online degree offering.

Under the agreement, we will provide exclusive technology and support services to Jiangsu University's adult education college prior to the approval for the online degree program. Once the online degree program is approved, the Company will continue to provide Jiangsu University with exclusive technology and support services to their online degree program. We also signed a collaborative alliance agreement with Fujian Radio and TV University in Fujian province.

You may have seen our earlier press release. Under the agreement, the Company holds a 51% equity interest. And it will provide the development and delivery of online education services to Fujian's K-12, future training, and adult students.

Now let's turn to slide six. Our other lines of business are performing as expected as well. Our 101 online tutoring business saw net revenue grow by 15% during the second quarter of 2009. The changes we had implemented in 101 online have shown positive results, though we expect more in the coming quarters.

Phase II construction at the Anqing School is at its final stage. And it will be ready for the fall semester. The Anqing School and the Pingdingshan School fall recruitment is underway. As of today, both schools have already exceeded our full enrollment target, indicating their acceptance and recognition by the local communities.

The status of the Jingzhou School is still the same. Its construction project continues to be on halt. Our international curriculum business is continuing its business development efforts in securing additional Chinese high school partners.

In conclusion, our online programs once again successfully completed spring enrollment with strong results. Overall, ChinaEdu has continued to execute on our strategy and organically grow at a healthy pace. With that in mind, we will continue to focus on opportunities in online education through the initiatives that we have set our both in business operation and business development. Now Lily will review some of the key financial information for the quarter. Lily?

Lily Liu - ChinaEdu Corp. - CFO

Thank you, Shawn. Good morning and good evening. I'd like to actually start by addressing the correction to our earnings release earlier. Our EPS numbers in RMB remained the same. But currency conversion differences and rounding differences caused a misalignment in previously released numbers. We have issued a correction shortly before this earnings release. We have taken appropriate measures by exhibiting three digits for the conversion process in order to assure no such difference will appear in the future.

Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Now let's turn to slide eight. As mentioned by Julia in the financial highlight section, our net revenue for the online degree program has reached RMB71.5 million, which grew approximately 10% from the second quarter of 2008. This is driven by strong 2009 spring semester enrollment with the revenue student number increasing by nearly 18% from 125,000 to 147,000.

Let me clarify here that in 2008 spring term, our student number of 125,000 did not include student number -- student from Lanzhou University, Nanjing University, or our learning centers at that time. Therefore, the student number growth of 18% appear higher than our net revenue growth. Our total revenue for the quarter reached approximately RMB88 million with approximately 11% growth from the second quarter of last year.

Now on page nine with net revenue breakdown for the other three business segments, our 101 online tutoring and private schools also recorded healthy growth from the second quarter of 2008. 101 online tutoring net revenue grew by 15% to RMB4.7 million. This segment has continued to perform since the end of last year. Private schools net revenue for this quarter grew by 85% to RMB6.9 million, driven by Anqing school's new campus.

International curriculum, as we have indicated last year and last quarter, net revenue continued to decrease to RMB5.2 million in this quarter. Our business development efforts have continued with the new SCC program. And we are confident that this business will begin to see growth in 2010.

Now page 10 highlights our gross margins. Gross margins for the online degree program was 68% this quarter, which decreased when compared to 79% in the second quarter of 2008. At the end of this quarter, we have a total of 56 learning centers as compared to a total of 22 at the end of second quarter in 2008.

Learning centers have a different cost and expense structure than the traditional online degree programs. Most of the expenses incurred by the learning centers is considered sales related and therefore recorded as cost of revenue. Therefore, learning centers have a lower gross margin than our traditional online degree programs. However, learning centers also incur net operating expenses. Therefore, we believe on the normalized basis our learning centers should have similar net profitability as our traditional online degree program.

We are on track to achieving breakeven net profitability for our learning centers network by the end of 2009. Also in this quarter, our 101 online tutoring programs gross margin also declined. This is due to the impact from the YoYo Bear product, which has a different cost and expenses structure than our traditional 101 online tutoring program. YoYo Bear product has a higher fixed cost and therefore a lower gross margin.

Finally, for our private schools gross margins, it declined moderately due to increased staff costs at Anqing School with the new campus. Next page, total operating expenses were RMB33 million this quarter, which grew moderately by 6% compared to RMB31 million in the second quarter of 2008. The increase was primarily due to increases in G&A expenses and R&D expenses, which were offset by decreases in sales and marketing expenses.

Our general and admin expenses were approximately RMB20 million for the quarter compared to RMB18 million in the second quarter of 2008. The increase is primarily due to an increase in performance-based employee compensations, which includes incremental expenses recognized from the option reprising conducted at this quarter.

Our R&D expenses were approximately RMB8 million this quarter, increased by 35% from RMB5.8 million in the second quarter of 2008. Increased R&D expenses include those for the university partners as well as 101 online tutoring program.

Finally, our sales and marketing expense were RMB5.4 million in this quarter, which declined from RMB7 million in the second quarter of 2008, as we streamlined our general advertising and promotional activities at our learning centers operation, which significantly offset sales and marketing expense increases for our online degree program and 101 online tutoring program.

Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

As a result, due to the increase in cost of revenue and operating expenses this quarter, our EBITDA declined slightly from RMB32 million in the second quarter of 2008 to RMB30 million this quarter. EBITDA margins declined from 40% to approximately 33% this quarter. However, we believe on ongoing basis EBITDA margin of approximately 30% is a more sustainable level.

On six-month basis, which we believe better reflects our ongoing operations, EBITDA rose by nearly 10% this quarter versus second quarter of last year. And EBITDA margin remained stable at 33% in the first half of 2009 versus 34% in the first half of 2008.

Similarly, on the next page, if we look at adjusted operating income, which is GAAP operating income with amortization and share-based compensation added back, on a quarter-to-quarter basis, adjusted operating income declined from RMB29 million to RMB26 million. And operating margins declined from 36% to 29%. However, if we compare on a year-to-date basis, adjusted operating income grew by 6%. And adjusted operating income remained relatively stable at 28% year to date versus 30% in the first six months of 2008.

Similarly, on the next page, this trend holds for our adjusted net income and margins. Our adjusted net margin for the quarter was 14%. And for year to date, adjustment net margin was 15%. Although adjusted net income for the quarter declined slightly when compared to second quarter of 2008, both adjusted net income and margin rose when compared on a six months basis to last year.

As mentioned in the financial highlight section, our EPS rose significantly compared to last year, due to the Tiger share repurchase and the open market share repurchases, conducted in late 2008 and early 2009. As a result, on a six-month basis, our basic EPS doubled to RMB0.38 in the first half of this year from RMB0.19 in the first half of 2008.

Also, as expected and explained in the previous quarters, our statutory tax rate decreased for 2009 compared to 2008, resulting in our effective tax rate being 26% this quarter versus 35% in the second quarter of 2008.

Finally, a quick review of our balance sheet -- again, our balance sheet is very strong. Cash and term deposits at the end of quarter was approximately \$45.5 million. The reduction of approximately \$4 million or RMB28 million was primarily due to CapEx for Anqing School. For the private schools, approximately RMB92 million has already been spent on construction. And approximately a total RMB120 million will have been spent by the end of this year. And this includes both Phase I and Phase II construction CapEx.

Lastly, I'd like to give our management guidance for the third quarter total net revenue. Our view is that we will achieve between RMB84 million to RMB88 million in total net revenue for the third quarter, representing a growth of 2% to 7% year over year. This concludes my review of the financial performance. I'd now like to open the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Mark Marostica of Piper Jaffray. Please proceed.

Mark Marostica - Piper Jaffray - Analyst

Thank you. And nice job on the quarter. My first question deals with the topic, Lily, you explored. And that is the disparity between revenue growth and enrollment growth. Could you again walk me through why there was the disparity?



Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Lily Liu - *ChinaEdu Corp. - CFO*

The disparity is a result of the fact that in 2008 spring semester or Q2, we did not include student numbers from Lanzhou University, Nanjing University, or the learning centers at that time. So essentially, the student number for Q2 2008 was lower than actual student numbers, making the growth to 147,000 this quarter higher.

Mark Marostica - *Piper Jaffray - Analyst*

So if -- go ahead. I think you were going to go where I was going to go.

Lily Liu - *ChinaEdu Corp. - CFO*

No, go ahead.

Mark Marostica - *Piper Jaffray - Analyst*

I was going to ask -- if you included those schools in Q2 of '08, what would the normalized growth rate on revenue and enrollments have looked like?

Lily Liu - *ChinaEdu Corp. - CFO*

The revenue growth is 10%.

Mark Marostica - *Piper Jaffray - Analyst*

Right.

Lily Liu - *ChinaEdu Corp. - CFO*

So the revenue growth is 10%. And if we had included student numbers back in 2008, the student number would have been increasing at approximately 10%.

Mark Marostica - *Piper Jaffray - Analyst*

Okay. Got it. So --

Lily Liu - *ChinaEdu Corp. - CFO*

10% for the schools, except for -- excluding Lanzhou University, Nanjing University, and the learning centers.

Mark Marostica - *Piper Jaffray - Analyst*

If you look at your plans for pricing increases that are built into the contracts, is it that, given that the revenue and enrollment growth are equivalent, that there are no pricing increases built in or planned going forward?



Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Lily Liu - ChinaEdu Corp. - CFO

We have -- we don't have pricing increases built into the contract. Having said that, it doesn't mean that we will not -- for selected areas, selected schools, and selected programs, we may have certain price increases. But we don't believe price increase will be a significant driver for revenue growth going forward.

Mark Marostica - Piper Jaffray - Analyst

Okay. Great. And switching gears, again, you've signed a couple more contracts, which is great. My question that I've asked before as well relates to the MOE approvals. And can you review for us what schools you are still awaiting approval for so they can offer online degrees and what the timing maybe and what you think the holdup is? Thank you.

Julia Huang - ChinaEdu Corp. - Chairman, CEO

Mark, we signed two contracts. One is a technology contract with Jiangsu University, which is a technology service contract. Jiangsu is still waiting for MOE approval. But even before approval, we'll have a minimal amount of a technology service fee earned, even at the current stage. Post-approval, we'll receive approximately 8% of the total growth tuition revenue for our service fees.

For the other joint-venture partnership, it's a joint venture with Fujian Province TV and Radio University. It's actually a strategy of -- part of the strategy of our learning center expansion plan. So for that province, we're not going to build our proprietary learning centers. The whole province will leverage existing Fujian TV and Radio University to expand our learning centers there through the joint-venture partnerships, which is quite similar to our university, our joint-venture partnerships.

The difference is that our previous learning model, learning joint venture, is the upstream which we provide operations, the online learning, or online education operations, which provide student recruiting, courseware development, all the necessary parts which the online college needs. But the joint venture with Fujian TV University is more a channel contract, which we formed a joint venture with the province TV university to build a network for students, which is going to conduct offline final exams, entrance exams, admission procedures, and also self-marketing activities in the local areas.

Mark Marostica - Piper Jaffray - Analyst

And then regards to the other -- I believe there are two other relationships that you had struck a while back. Where do those stand in terms of approvals?

Julia Huang - ChinaEdu Corp. - Chairman, CEO

We have three joint-venture partners which are waiting for approval. We're still -- they're still in the pipeline for approval. The two joint ventures with TV universities don't need to get approved. They're mostly for learning center expansion.

Mark Marostica - Piper Jaffray - Analyst

Okay. And on these JV partners, when do you think the approval will occur? I know it's hard to predict. But can you give us a sense for what maybe holding back the approvals?

Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Julia Huang - ChinaEdu Corp. - Chairman, CEO

Actually, it's uncertain for us as well because there's no clear guidelines when and what time it's going to approve. On the other hand, it's actually determined by Minister of Education. All reports and submissions, applications already submit on his table. But it's quite -- it's not something that there's a schedule to be determined that that is going to be approved.

Mark Marostica - Piper Jaffray - Analyst

Understand. And then one last question -- Lily, you mentioned the effective tax rate for the second quarter I believe was around 26%. How should we be modeling the tax rate going forward?

Lily Liu - ChinaEdu Corp. - CFO

The effective tax rate for -- I would keep it at approximately the same percentage going forward for the remainder of the year.

Mark Marostica - Piper Jaffray - Analyst

Okay. Thanks. I'll turn it over.

Operator

Your next question comes from the line of Jeff Lee with Signal Hill. Please proceed.

Jeff Lee - Signal Hill - Analyst

Hi. Thank you. First question, do you expect enrollment growth to hold at about the same levels for the rest of the year? And then maybe talk about the factors, why it's been down from the previous four quarters, where it's all been about over 25%.

Lily Liu - ChinaEdu Corp. - CFO

We believe our revenue growth should be sustainable at approximately the same rate, around 10% going forward. This, of course, is not -- does not include any future approvals. Our learning centers have been growing faster. But the learning centers contribution currently is still small.

I think the factors -- when you mentioned the factors contributing to the growth, the growth, the 10% growth really is mostly organic growth for the existing partners that we already have. So unless we have new university approvals or higher contribution from learning centers, this growth should hold for the near future.

Julia Huang - ChinaEdu Corp. - Chairman, CEO

Although the growth from K-12 schools, growth from 101 online, also growth coming from learning centers, because the percentage of those businesses is relatively small, so that doesn't contribute growth significantly from what we are seeing today.

Jeff Lee - Signal Hill - Analyst

Okay. The growth at 101 online was relatively strong this quarter versus previous quarters where it declined. What do you attribute the strong growth to?

Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Julia Huang - ChinaEdu Corp. - Chairman, CEO

We have spent a lot of efforts this year. One is in the sales and channels, sales and marketing efforts. We have spent a lot of efforts in sales and marketing. Two, we have done a lot of work improving our product services and also training our sales agents how to improve their sales skills. So we spend a lot of effort in both product and also sales efforts.

Jeff Lee - Signal Hill - Analyst

Okay. Great. And then I wanted to ask about expenses. You kept -- on the G&A line, selling and marketing, research and development, you kept those expenses relatively in line with what you had last quarter on an absolute basis. What are your expectations for the rest of the year? Should we see those being relatively in line the next two quarters? Or is there any big planned jumps?

Lily Liu - ChinaEdu Corp. - CFO

I would say the R&D -- for the R&D expenses, we're continuing to expect to see increases in R&D. I think this year, as we mentioned before, that there are going to be increases in R&D expenses. Sales and marketing expenses as percent of revenue should stay relatively stable for the rest of the year. Although there's a bit of a seasonality. So in the -- for example, for our 101 online tutoring business, the third quarter tends to be heavier in terms of sales and marketing expenses. Our G&A expenses as percentage of revenue should stay relatively stable.

Jeff Lee - Signal Hill - Analyst

Great. Thank you. And last question is related to the international curriculum segment. Is there any update as far as trying to renew your international curriculum partners?

Julia Huang - ChinaEdu Corp. - Chairman, CEO

Jeff, in addition to the FEC and BCIT programs we're having, right now we are adding one more partner, a Canadian high school, which we are trying to integrate more course curriculums into the high school partners, as well as we are also trying to partnership with more US universities to give better alternatives for our high school grads when they graduate from high schools.

So we are enriching our contents and service offerings for our international curriculums. But on the other hand, the revenue contribution will take some time to really to come up because it takes time to build up the curriculum. And also, it takes time for the developing more partners in China.

Jeff Lee - Signal Hill - Analyst

Okay. Great. Thank you.

Operator

(Operator Instructions)

Your next question comes from the line of Echo He with Oppenheimer. Please proceed.

Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Echo He - *Oppenheimer & Co. - Analyst*

Hi. Thank you for taking my question. First, Lily, you said your sales and marketing decreased year over year because you aligned your sales and marketing effort. And is that because you increased the learning center building up than decrease the actually sales promotions?

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

No, Echo. Actually, this year in the spring enrollment, we increased our telemarketing efforts and spent slightly less on our sales and marketing advertising dollars. But in the fall, right now, our advertising costs, especially in Q3, will go up compared with Q2.

Echo He - *Oppenheimer & Co. - Analyst*

Okay. So -- but why that if you decreased sales and marketing effort you did not see your enrollment decrease? Is that because your region is stable?

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

No, actually, Echo, it's a different approach. We are doing both advertising, telemarketing, online sales and marketing, and all different approach. Although we didn't increase our advertising dollar. But we did increase our telemarketing staff costs. So both of them -- all of this approach will contribute in the enrollment growth. But we're always trying to use different approach to see which one makes the best contribution in terms of enrollment growth.

Echo He - *Oppenheimer & Co. - Analyst*

So in other words, telemarketing is more economic than previously advertising.

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

It's more direct in terms of contribution on the student enrollment. But put in these words, it doesn't mean that we're not going to do advertising. In the Q3, we're increasing our advertising dollars to pump up our branding and reputation, as well as we're doing some online advertising on the Q2 to pull more interested students into our program.

Echo He - *Oppenheimer & Co. - Analyst*

Okay. All right. Okay. That makes sense. Also, a question on your Anqing School and actually on your just land-based school program -- what's the enrollment of each school? Or what's their target enrollment?

Shawn Ding - *ChinaEdu Corp. - President, Chief Operating Officer*

Echo, are you asking physical schools?

Echo He - *Oppenheimer & Co. - Analyst*

Right. Yes.

Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Shawn Ding - ChinaEdu Corp. - President, Chief Operating Officer

I can give you the target numbers. The target numbers for the Anqing School is 850 to be specific.

Julia Huang - ChinaEdu Corp. - Chairman, CEO

For the Anqing School, our target for the new campus is 850.

Echo He - Oppenheimer & Co. - Analyst

Okay.

Julia Huang - ChinaEdu Corp. - Chairman, CEO

Plus around 450. But now our enrollment's already -- fall enrollment's already exceeding those two targets for Anqing School. And for new enrollment for the fall for our Pingdingshan School, the target was close to 400. Now we should have -- we have already exceeded that target.

Echo He - Oppenheimer & Co. - Analyst

Okay. The reason I'm asking is I want to know, since you said that in Anqing School already, you put in RMB120 million on the CapEx for construction.

Julia Huang - ChinaEdu Corp. - Chairman, CEO

No, we -- actually, that's an estimate number. So far, the cash we have spent for Phase I was over RMB40 million. For Phase II, we estimate the budget was RMB45 million. But we haven't really spent that much capital yet.

Echo He - Oppenheimer & Co. - Analyst

Okay. Could you give some economics of the physical schools, like if you spend this amount of CapEx and how many years -- what's your basically net margin and how many years you expect the return of investment capital?

Julia Huang - ChinaEdu Corp. - Chairman, CEO

Echo, right now, we don't have a line number for you. Maybe we'll work through with you when we get chance offline.

Echo He - Oppenheimer & Co. - Analyst

Okay. I've got you. Also, you said that you probably expect to see a rebound of revenue growth from international curriculum programs in 2010. And what was the reason particularly?

Julia Huang - ChinaEdu Corp. - Chairman, CEO

We didn't give out any time yet for rebound for any particular timeline. What I mentioned, it takes sometime to get revenue.

Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Echo He - *Oppenheimer & Co. - Analyst*

I mean, actually, I'm asking why you think that's going to come back. You're signing more partnerships, and --

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

We're doing both. We've signed up more partnerships in overseas and, after we increase more curriculum offerings, trying to do more business development in China for partnerships in China to expand our business.

Echo He - *Oppenheimer & Co. - Analyst*

Okay. So that's after you lost the partner in the previous quarter. And then -- okay. That's kind of a new partnership, right? It's -- what I am saying is you're taking a new approach or some different from previous approach? I just want to know your strategy better.

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

Yes, that's right. We are trying to -- tuning our product offerings to better meet student's demand and student needs.

Echo He - *Oppenheimer & Co. - Analyst*

You mean you didn't even change your course offering. You changed your -- what would I say?

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

We're trying to enrich our content. Before, it was only pure English course. Now we're trying to add in more curriculums to make the program more attractive.

Echo He - *Oppenheimer & Co. - Analyst*

Okay. Yes. Okay. I understand that. Thank you so much.

Operator

We have a follow up question from the line of Mark Marostica with Piper Jaffray. Please proceed.

Mark Marostica - *Piper Jaffray - Analyst*

Yes. Thank you. I wanted to dive into the gross margins in a little more detail. If you looked at the three items that you talked about that were weighing on the margins, the gross margin in the quarter, expanding the learning center network, the Anqing School, and the 101 tutoring, specifically the YoYo Bear product expenses, if you looked at those three and striped those three items out, what would gross margins have been on a normalized basis in the quarter?

Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Lily Liu - ChinaEdu Corp. - CFO

I am sorry. You stripped out only the 101 online tutoring private schools and private --

Mark Marostica - Piper Jaffray - Analyst

Yes, the three items that you mentioned were weighing on the gross margins in the quarter -- I'm just trying to get a sense for the run rate on a gross margin line, what that should look like on a normalized basis if you -- once these three items disappear.

Lily Liu - ChinaEdu Corp. - CFO

I think, essentially, you're asking what our normalized gross margin would be just for the online degree programs.

Mark Marostica - Piper Jaffray - Analyst

Yes, that's fair.

Lily Liu - ChinaEdu Corp. - CFO

Okay. Well, as we mentioned, the online degree program, right now, it's a blend of learning centers business as well as the traditional online degree programs. The learning centers have -- clearly have a much lower gross margin. On a normalized basis, it has a lower gross margin than our traditional online degree programs anyway, exactly because, as we mentioned, that most of the recruiting efforts that we performed are recorded as cost of revenues.

Julia Huang - ChinaEdu Corp. - Chairman, CEO

Mark, the learning center business for this quarter dropped down by 4% of our gross margin. So if you add it back, it's about 72% or 71%.

Mark Marostica - Piper Jaffray - Analyst

Okay. And is that 4% tied exclusively to expanding the learning center network, or -- ?

Julia Huang - ChinaEdu Corp. - Chairman, CEO

That's the cost, cost of revenue, or cost of the sales of the learning center.

Mark Marostica - Piper Jaffray - Analyst

Okay.

Julia Huang - ChinaEdu Corp. - Chairman, CEO

For learning center, the major cost, over 80%, 90% of the cost goes to the COGS rather than into the expenses. So the margin is really low for the learning center business.



Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

Mark Marostica - Piper Jaffray - Analyst

Do you expect that to reverse itself once the learning center network achieves profitability at the end of this year?

Julia Huang - ChinaEdu Corp. - Chairman, CEO

No. It doesn't have anything to do with the profitability. It's more of the cost structure.

Mark Marostica - Piper Jaffray - Analyst

Got you.

Julia Huang - ChinaEdu Corp. - Chairman, CEO

All the learning center expenses and cost goes to the COGS. So that's why the margin is low.

Mark Marostica - Piper Jaffray - Analyst

Julia, could you walk through same logic for Anqing and 101? You mentioned 4% on the learning center business. What was the impact from each of those two items on the margins?

Julia Huang - ChinaEdu Corp. - Chairman, CEO

For -- actually, I didn't look into the Anqing -- for online tutoring for this quarter, the YoYo Bear probably also takes down 3% to 4% of our margins.

Mark Marostica - Piper Jaffray - Analyst

Okay. And on that particular line item, is that going to be with us as a headwind for the next few quarters? Or is that expense -- ?

Julia Huang - ChinaEdu Corp. - Chairman, CEO

That seems to drag down our margin as well because YoYo Bear is an offline product. And the product consists of book, toys, DVD, and parent book. So all that goes to COGS, as well as our sales cost. So the gross margin probably will be low 30% or so. So that will drag down our margin a lot for 101 online tutoring business.

Mark Marostica - Piper Jaffray - Analyst

Right. Okay. So that's just inherent in the model for 101. And then I could follow up later on Anqing because it sounds like you don't have the information handy. But when you look at Q3 and you think about gross margins, how should we think about the behavior of the gross margin in Q3 relative to Q2?

Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

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

I think as our learning center business continues to grow, that's going to drag down our gross margins because of the cost structure incurred. So the gross margin should go down.

Mark Marostica - *Piper Jaffray - Analyst*

On a year-over-year basis or quarter-to-quarter basis?

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

I think both.

Mark Marostica - *Piper Jaffray - Analyst*

Okay. Okay. Thank you.

Operator

(Operator Instructions)

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

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

Ladies and gentlemen, thank you again for participating in ChinaEdu's second quarter 2009 earnings call. I'd like to close by reiterating how much we appreciate your interest and support. We have focused and we'll continue to concentrate our attention and resources to our core business, online education.

The management team believes that our execution and our strategic direction will bring long-term success and long-term value to our shareholders. We look forward to keeping you apprised of our future success. Thank you and have a good day and good night.

Operator

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

Aug. 20. 2009 / 12:00PM, CEDU - Q2 2009 CHINAEDU CORP Earnings Conference Call

DISCLAIMER

Thomson Reuters 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 REUTERS 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.

©2009, Thomson Reuters. All Rights Reserved.

