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## Third Quarter Fiscal 2012 Results Presentation



Aug 16, 2012



This presentation contains forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as “will,” “may,” “should,” “potential,” “continue,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “is/are likely to,” “estimate” and similar statements. Among other things, the outlook for the fourth quarter of the fiscal year 2012 and the quotations from management in this announcement, the impact on us of the delayed timing of the APQE and CPA exams, as well as the Company’s strategic and operational plans, contain forward-looking statements. The Company may also make written or oral forward-looking statements in its periodic reports to the SEC in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Statements that are not historical facts, including statements about the Company’s beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement, including but not limited to the following: our goals and growth strategies; our future prospects and market acceptance of our online and offline courses and other products and services; our future business development and results of operations; projected revenues, profits, earnings and other estimated financial information; projected enrollment numbers; our plans to expand and enhance our online and offline courses and other products and services; competition in the education and test preparation markets; and Chinese laws, regulations and policies, including those applicable to the Internet and Internet content providers, the education and telecommunications industries, mergers and acquisitions, taxation and foreign exchange.

Further information regarding these and other risks is included in the Company’s annual report on Form 20-F and other documents filed with the SEC. The Company does not undertake any obligation to update any forward-looking statement, except as required under applicable law. All information provided in this presentation is as of the date of August 16, 2012.



- ❖ **Results Overview**
- ❖ **Operational Updates**
- ❖ **Financial Highlights**
- ❖ **Business Updates & Outlook**
- ❖ **Q&A**



## Healthy Financial Performance Despite Challenges from Delayed Accounting Exams

### Challenges from Exam Delays

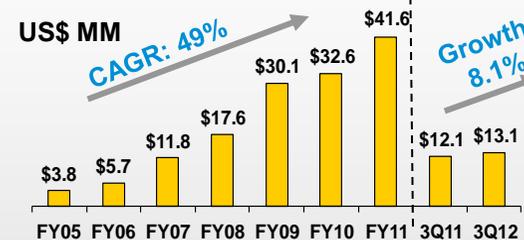
- APQE exam delayed for 5 months
- CPA exam policy released more than 2 months later than last year
- CPA actual exam dates have been delayed over 1 month



- Over **\$1.5** million of APQE cash revenue generated from prior quarters has been delayed until later quarters
- Some enrollments of CPA exam have been pushed into later quarters
- Significant impact on gross and net margins given fixed in nature of cost and expenses

### Healthy Underlying Performance

#### Net Revenue Near High End of Guidance Range



- Online enrollments grew 14.1%
- Net revenue from continuing operations increased 8.1% y-o-y to US\$13.1 million
- Net income increased 45.1%
- EPS increased 42.9%
- Operating cash flow increased 188.8% y-o-y to \$2.2 million



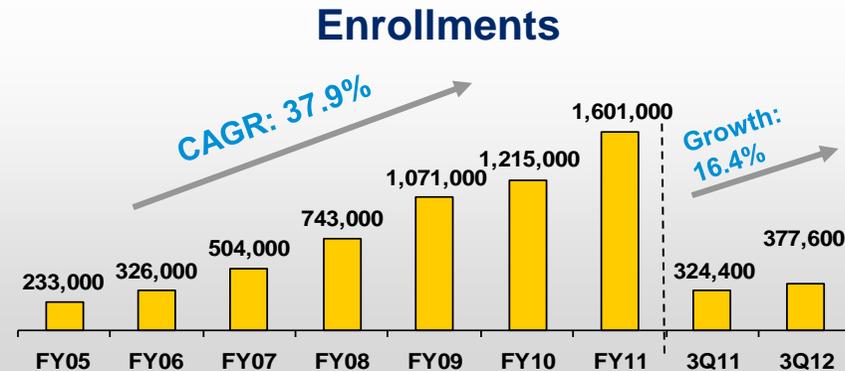
- ❖ **Results highlight our significant progress in developing well-diversified, high quality course offerings and educational services**
  - Scope and depth of business mitigated the impact of this year's APQE and CPA exam delays
- ❖ **Maintaining focus on enhancing students' learning experience and test results:**
  - Continuous investments in content development
  - Utilizing cutting edge online and mobile learning technologies in our courseware and online learning platform
- ❖ **Introduced new CPA exam simulation system and interactive mobile learning platform:**
  - New CPA exam simulation system to enable students to better prepare for the new exam format, which has moved from paper-based to computer based exams
  - Fully interactive mobile exercise platform to allow students to listen to test preparation classes and review course notes and do exercise questions on their mobile devices
- ❖ **Our results indicate that the demand for our educational services remains healthy while impact from the delay is mainly a matter of timing and temporary in nature**
- ❖ **Remain well positioned to deliver continued top- and bottom-line growth in 4QFY12 and FY13**



## Healthy Revenue Streams Supported by Increased Revenue in Accounting Test Preparation and Healthcare Courses

### ❖ Third Quarter Fiscal 2012

- Online education services revenue: Increased 4.6% Y-o-Y to US\$9.3 million
- Enrollments: Increased 16.4% Y-o-Y to 377,600



### ❖ Increased revenue from:

- Other accounting test preparation courses
- Healthcare courses



### ❖ Decreased revenue from:

- APQE courses
- CPA courses

### ❖ Expectations:

- Testing cycle for these exams will normalize while GAAP revenue in the interim quarters will likely be higher than normal as a result of these delays
- Revenue growth to return to normal level by 2HFY13

# Operational Updates

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## Enrollment, ASP Growth Demonstrates Market Leadership

### ❖ Q3 Enrollment

- Enrollment in **online APQE** increased 6.7% Y-o-Y
- **Online CPA** enrollment decreased 10.8% Y-o-Y
- **Other Accounting Test Preparation** courses enrollment increased 12.0%
- Solid enrollment in **Accounting Continuing Education**, with 25.9% Y-o-Y growth

### ❖ Average Student Payment (ASP)

- ASP for **online APQE** increased 17.4% Y-o-Y
- ASP for **online CPA** increased 27.9% Y-o-Y
- Strong ASP for **Other Accounting Test Preparation** courses, with 78.5% Y-o-Y growth



## Strong Enrollment Growth in Healthcare and Self-Taught Higher Education; Continued Growth from Yucai

### ❖ Online Healthcare Courses

- Our result-oriented, high quality courses continue to build a strong brand presence in this growing market segment
- Q3 enrollment increased 22.6% Y-o-Y; ASP grew 9.2% Y-o-Y

### ❖ Online Construction Engineering Test Preparation

- Q3 enrollment increased 84.1% Y-o-Y
- ASP increased slightly by 0.2% Y-o-Y

### ❖ Online Construction Continuous Education

- Q3 enrollments decreased 41.0% Y-o-Y, believe it is mainly a seasonality issue
- Expect enrollments to improve in the coming quarters

### ❖ Self-Taught Higher Education

- Q3 enrollments increased 29.7% Y-o-Y; ASP grew 10.9% Y-o-Y

### ❖ Business Start-up Training Subsidiary, Yucai

- Generated revenue of US\$1.0 million in the third quarter, increase of 230.1% Y-o-Y

# Financial Highlights

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## Healthy Financial Performance Amid Challenges from Delayed Exams Timing

- ❖ **Resilient performance despite challenges from delayed exam timing due to:**
  - Growing diversity of our course and service offering
  - Development of additional revenue streams
- ❖ **Proves the merits of our strategy and the fundamental strength of our business model**
- ❖ **Factors affecting Non-GAAP net income from continuing operations:**
  - Delayed recognition of APQE revenue due to unexpected 5 months' delayed exams timing
  - CPA exams delayed one month from the usual timeline
  - New revenue sharing arrangements with our online distributors



## Factors Affecting Non-GAAP Net Income from Continuing Operations

### ❖ Delayed Recognition of APQE Enrollment and Revenue

- Unexpected 5 months' delay in the APQE exam time directly resulted in the delayed recognition of about US\$1.5 million of cash collected in prior quarters for the APQE test preparation courses to 4QFY12 and 1HFY13
- Expect enrollments for APQE in 4QFY12 to decrease significantly due to:
  - Some of our students start to enroll for next year's test preparation courses right after they take the current year's exams
  - A good number of students enroll for our courses after they obtain the current year's test results – either repeat failed subject or enroll for new subjects
  - Expect significant portion of all such post-exam enrollments will be delayed into FY13

### ❖ CPA exams delayed one month from the usual timeline

- Exam policy came out in the beginning of June, almost 2 months later than last year, causing a significant portion of CPA enrollments for this quarter to come in towards the last 3 weeks of June and a good portion in July
- Resulted in the delay of a certain amount of revenue recognition from this quarter to 4QFY12 and 1QFY13



## Factors Affecting Non-GAAP Net Income from Continuing Operations

- ❖ **New revenue sharing arrangements with our online distributors**
  - Under new revenue sharing arrangement, revenue generated from online distributors is recognized at the full amount charged to students while the distributors' portion of revenue was recorded as selling expenses
  - About US\$1.6 million of revenue sharing with distributors was recorded as selling expense in Q3 2012
  - Within this US\$1.6 million, only US\$0.8 million were 'topped-up' into this quarter's GAAP revenue as a significant portion are delayed to 4QFY12 due to the delayed timing of APQE and CPA exams
  - Expect most of this 'mismatch' to be reversed in 4QFY12, resulting in increased profitability in the quarter

# Selected Income Statement Items (Unaudited) – 3Q FY2012

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## Income Statement Summary (US\$ in Thousands, except per ADS data)

	3Q FY11	3Q FY12	YoY Change%	3Q FY11	3Q FY12	YoY Change%
	GAAP	GAAP	GAAP	Non-GAAP	Non-GAAP	Non-GAAP
<b>Net revenues:</b>						
Online education services	8,936	9,349	4.6%	8,936	9,349	4.6%
Books and reference materials	1,004	1,105	10.1%	1,004	1,105	10.1%
Others including in-person training	2,206	2,674	21.2%	2,206	2,674	21.2%
<b>Total net revenues</b>	<b>12,146</b>	<b>13,128</b>	<b>8.1%</b>	<b>12,146</b>	<b>13,128</b>	<b>8.1%</b>
<b>Cost of sales</b>	<b>(5,036)</b>	<b>(6,320)</b>	<b>25.5%</b>	<b>(4,671)</b>	<b>(6,307)</b>	<b>35.0%</b>
<b>Gross profit</b>	<b>7,110</b>	<b>6,808</b>	<b>-4.2%</b>	<b>7,475</b>	<b>6,821</b>	<b>-8.7%</b>
<b>Gross margin</b>	<b>58.5%</b>	<b>51.9%</b>	<b>-6.6 ppt</b>	<b>61.5%</b>	<b>52.0%</b>	<b>-9.5 ppt</b>
<b>Operating expenses:</b>						
Selling expenses	(2,880)	(3,511)	21.9%	(2,748)	(3,501)	27.4%
General and administrative expenses	(2,569)	(2,283)	-11.1%	(2,070)	(2,202)	6.4%
Impairment of purchased call option	(1,115)	0	NM	0	0	NM
<b>Total operating expenses</b>	<b>(6,564)</b>	<b>(5,794)</b>	<b>-11.7%</b>	<b>(4,818)</b>	<b>(5,703)</b>	<b>18.4%</b>
<b>Operating Income (Loss)</b>	<b>1,135</b>	<b>1,030</b>	<b>-9.3%</b>	<b>3,246</b>	<b>1,134</b>	<b>-65.1%</b>
<b>Income tax benefit (expense)</b>	<b>(313)</b>	<b>(260)</b>	<b>-16.9%</b>	<b>(313)</b>	<b>(260)</b>	<b>-16.9%</b>
<b>Net income (loss) from continuing operations</b>	<b>1,104</b>	<b>1,108</b>	<b>0.4%</b>	<b>2,936</b>	<b>1,212</b>	<b>-58.7%</b>
<b>Net income (loss) from discontinued operations</b>	<b>(189)</b>	<b>220</b>	<b>NM</b>	<b>(189)</b>	<b>220</b>	<b>NM</b>
<b>Net income (loss) attributable to CDEL</b>	<b>915</b>	<b>1,328</b>	<b>45.1%</b>	<b>2,747</b>	<b>1,432</b>	<b>-47.9%</b>



<i>(US\$ in Thousands)</i>	3Q FY11	3Q FY12	YoY Change%
<b>Net Operating Cash Flow</b>	0.8	2.2	188.8%

❖ **Y-o-Y increase was due to:**

- Increased net income generated in the quarter
- Increased deferred revenue and refundable fee
- Increased in accrued expenses balance
- Decreased in prepaid expenses balance
- Such increase was partially offset by increase in accounts receivable and deferred cost balance and the decrease in tax payables

❖ **Net operating cash flow generated to date is US\$11.9 million, far exceeding GAAP net income due to:**

- Continue to generate very strong cash flow from operations
- Prudent management of working capital
- Reducing number of days that our Accounts receivable outstanding

❖ **Free cash flow generated to date has reached US\$10.4 million, fully indicating our ability to generate cash for our shareholders**



## Balance Sheet Summary

(US\$ in Millions)

Assets	Mar 31, 2012	Jun 30, 2012	Change %
Cash and Cash Equivalents, Term Deposits and Restricted Cash	54.5	55.6	2.0%
Receivables	3.4	3.6	6.0 %
Inventories	0.7	0.8	15.6%
Net PP&E	8.8	9.7	10.7%
Other Assets	23.8	18.9	-20.6%
<b>Total</b>	<b>91.2</b>	<b>88.7</b>	<b>-2.8%</b>

Liabilities and Shareholders' Equity	Mar 31, 2012	Jun 30, 2012	Change %
Accrued Expenses and other liabilities	7.6	8.6	12.6%
Deferred Revenues, current portion	13.6	13.9	2.2%
Refundable Fees	2.2	3.0	36.5%
Total Shareholder's Equity	64.3	61.3	-4.8%
<b>Total</b>	<b>91.2</b>	<b>88.7</b>	<b>-2.8%</b>

# Business Update and Outlook

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- ❖ **Results highlight the underlying strength of our operational platform and the merits of our growth strategy**
- ❖ **Enhancements we have made to our online and mobile learning technologies and our content delivery platform are helping to strengthen our brand power and drive ASP**
- ❖ **Have developed multiple revenue streams and ability to weather the impact from unforeseen events (such as the delayed timing of the APQE and CPA exams)**
- ❖ **Look ahead to FY2013 with a high degree of confidence in our ability to deliver sustainable revenue and profit growth**



**4Q FY12 revenue expected to be in the range of US\$15.7 million to US\$16.2 million, compared with US\$13.1 million in 4Q FY11;  
20% - 24% year-over-year growth**

# Thank You

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