**AMENDED**

*Consolidated Financial Statements of*

# China Education Resources Inc.

*Years ended  December 31, 2007 and 2006*

# AUDITORS' REPORT

To the Shareholders of
**China Education Resources Inc.**

We have audited the consolidated balance sheets of **China Education Resources Inc.** as at December 31, 2007 and 2006, the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

| | |
|---|---|
| Vancouver, Canada | /s/ Ernst & Young LLP |
| March 31, 2008 | Chartered Accountants |

# CHINA EDUCATION RESOURCES INC.
## Consolidated Balance Sheets
## As at December 31, 2007 and 2006

(See note 1 - Basis of presentation)

**(Expressed in U.S. Dollars)**

| | **2007** | 2006 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash | **$ 293,929** | $ 2,562,771 |
| Accounts receivable (Note 4) | **269,455** | 286,355 |
| Inventory | **141,543** | 151,200 |
| Prepaid expenses & deposits | **38,250** | 86,774 |
| Other receivable | **79,312** | 120,292 |
| Total current assets | **822,489** | 3,207,392 |
| Due from related parties | **164,316** | 153,501 |
| Long-term other receivable (Note 5) | **583,996** | 582,190 |
| Equipment and website development costs (Note 6) | **2,483,845** | 3,145,365 |
| Goodwill (Note 2) | **2,998,875** | 2,802,128 |
| Total assets | **$ 7,053,521** | $ 9,890,576 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **$ 2,707,455** | $ 1,826,632 |
| Income taxes payable (Note 12) | **1,959,471** | 1,587,791 |
| Loan payable (Note 9) | **-** | 13,688 |
| Total current liabilities | **4,666,926** | 3,428,111 |
| Future income tax liability (Note 12) | **25,548** | 439,004 |
| Long-term payable (Note 7) | **22,248** | 38,910 |
| Total liabilities | **4,714,722** | 3,906,025 |
| **Non-controlling interest** | **-** | 132,659 |
| **Commitments** (Note 15) | | |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | **26,140,551** | 25,886,237 |
| Contributed surplus | **1,250,845** | 999,965 |
| Acumulated other comprehensive income | **244,567** | 125,184 |
| Deficit | **(25,297,164)** | (21,159,494) |
| Total shareholders' equity | **2,338,799** | 5,851,892 |
| Total liabilities and shareholders' equity | **$ 7,053,521** | $ 9,890,576 |

Approved by the Board:

***"CF Zhou"***
Director

***"Ron Shon"***
Director

(The accompanying notes are an integral part of these consolidated financial statements)

# CHINA EDUCATION RESOURCES INC.

## Consolidated Statements of Operations and Comprehensive Loss

**for the years ended December 31, 2007 and 2006**

**(Expressed in U.S. Dollars)**

| | **2007** | 2006 |
|---|---|---|
| Revenue | | |
| Book sales and distribution services | **$ 440,827** | $ 1,435,581 |
| Teacher training | **998,810** | - |
| | **1,439,637** | 1,435,581 |
| Cost of sales | **240,694** | 752,619 |
| Gross profit | **1,198,943** | 682,962 |
| Expenses | | |
| General and administrative | **2,234,532** | 1,735,417 |
| Amortization | **1,002,557** | 115,227 |
| Bad debts | **75,322** | 656,141 |
| Selling expenses | **756,571** | 560,350 |
| Website operating expenses | **1,641,093** | - |
| Stock-based compensation (Note 10(b)) | **218,068** | 585,304 |
| | **5,928,143** | 3,652,439 |
| Operating loss | **(4,729,200)** | (2,969,477) |
| Other income | | |
| Other income | **6,002** | 11,109 |
| Interest income | **24,753** | 88,383 |
| Loss before income taxes | **(4,698,445)** | (2,869,985) |
| Current income taxes expenses (Note 12) | **3,903** | 46,948 |
| Future income tax expenses (recovery) (Note 12) | **(432,019)** | 184,286 |
| | **(428,116)** | 231,234 |
| Loss before non-controlling interest and discontinued operations | **(4,270,329)** | (3,101,219) |
| Non-controlling interest | **132,659** | 288,444 |
| Net loss from continuing operations | **(4,137,670)** | (2,812,775) |
| Gain from discontinued operations (Note 11) | **-** | 244,388 |
| Net loss for the year | **(4,137,670)** | (2,568,387) |
| Unrealized exchange gain on translation of self-sustaining foreign operations | **119,383** | 146,681 |
| Comprehensive loss | **$ (4,018,287)** | $ (2,421,706) |
| Loss per share - Basic and diluted | | |
| Loss from continuing operations | **$ (0.1088)** | $ (0.0763) |
| Earnings from discontinued operations | **-** | 0.0066 |
| Basic and diluted | **$ (0.1088)** | $ (0.0696) |
| Weighted average number of common shares used to calculate basic and diluted loss per share | **38,015,825** | 36,886,587 |

(The accompanying notes are an integral part of these consolidated financial statements)

# CHINA EDUCATION RESOURCES INC.

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

**for the years ended December 31, 2007 and 2006**

| (Expressed in U.S. Dollars) | Number of Shares | Amount | Contributed Surplus | Accumulated Other Comprehensive Income | Deficit | Comprehensive income (loss) | Total |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2005 | 35,421,585 | $ 23,788,700 | $ 621,127 | $ (21,497) | $ (18,591,107) | $ - | $ 5,797,223 |
| Issued for exercise of warrants including reclassification from contributed surplus of $173,819 | 2,334,398 | 1,939,944 | (173,819) | - | - | - | 1,766,125 |
| Issued for exercise of options including reclassification from contributed surplus of $32,647 attributed to stock-based compensation | 167,500 | 157,593 | (32,647) | - | - | - | 124,946 |
| Stock-based compensation | - | - | 585,304 | - | - | - | 585,304 |
| Foreign currency translation | - | - | - | 146,681 | - | 146,681 | 146,681 |
| Net loss for the year ended December 31, 2006 | - | - | - | - | (2,568,387) | (2,568,387) | (2,568,387) |
| Balance, December 31, 2006 | 37,923,483 | $ 25,886,237 | $ 999,965 | $ 125,184 | $ (21,159,494) | $ (2,421,706) | $ 5,851,892 |
| Issued for cash under private placement in October 2007 (Note 10(a)) | 481,500 | 254,314 | 32,812 | - | - | - | 287,126 |
| Stock-based compensation | - | - | 218,068 | - | - | - | 218,068 |
| Foreign currency translation | - | - | - | 119,383 | - | 119,383 | 119,383 |
| Net loss for the year ended December 31, 2007 | - | - | - | - | (4,137,670) | (4,137,670) | (4,137,670) |
| Balance, December 31, 2007 | 38,404,983 | $ 26,140,551 | $ 1,250,845 | $ 244,567 | $ (25,297,164) | $ (4,018,287) | $ 2,338,799 |

(The accompanying notes are an integral part of these consolidated financial statements)

# CHINA EDUCATION RESOURCES INC.
## Consolidated Statements of Cash Flows
**for the years ended December 31, 2007 and 2006**

**(Expressed in U.S. Dollars)**

| | **2007** | 2006 |
|---|---|---|
| Cash flows from (used in) operating activities | | |
| Net loss from continuing operations | **$ (4,137,670)** | $ (2,812,775) |
| Items not affecting cash: | | |
| Amortization | **1,002,557** | 115,227 |
| Bad debts | **75,322** | 656,141 |
| Disposal of assets | **23,253** | - |
| Future income tax expense (recovery) | **(432,019)** | 184,286 |
| Non-controlling interest | **(132,659)** | (288,444) |
| Stock based compensation | **218,068** | 585,304 |
| Changes in non-cash working capital items | | |
| Accounts and other receivable | **81,295** | 947,896 |
| Inventory | **19,500** | 3,972 |
| Prepaid expenses and deposits | **57,039** | (43,921) |
| Accounts payable & accrued liabilities | **556,959** | (566,699) |
| Income taxes payable | **188,958** | 252,504 |
| | **(2,479,397)** | (966,509) |
| Cash flows from (used in) investing activities | | |
| Purchase of property, plant and equipment | **(155,486)** | (1,865,003) |
| Repayment from related parties | **-** | 3,473 |
| Proceeds on sale of NEB (Note 11) | **-** | 722,981 |
| | **(155,486)** | (1,138,549) |
| Cash flows from (used in) financing activities | | |
| Net proceeds on issuance of share capital | **287,126** | 1,891,071 |
| Repayment of automobile loan | **(14,069)** | (11,878) |
| Repayment of long term payable | **(27,386)** | - |
| | **245,671** | 1,879,193 |
| Effect of foreign exchange rate | **120,370** | (25,166) |
| Net cash outflow during the year | **(2,268,842)** | (251,031) |
| Cash, beginning of year | **2,562,771** | 2,813,802 |
| Cash, end of year | **$ 293,929** | $ 2,562,771 |
| Supplemental disclosure of cash flow information | | |
| Interest paid | **$ 1,080** | $ 7,066 |
| Taxes paid | **$ 16,557** | $ 26,335 |

(The accompanying notes are an integral part of these consolidated financial statements)

# China Education Resources Inc.

## Notes to the Consolidated Financial Statements

## Years Ended December 31, 2007 and 2006

## (Expressed in U.S. Dollars)

### 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

China Education Resources Inc., together with its subsidiaries (individually and collectively referred to as the "Company"), provides an education internet portal with educational content, resources and training programs to users in People's Republic of China ("China"). The Company's principal activity up to late 2006 was distribution of educational textbooks and materials developed by the Company to bookstores and schools in China.

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. Since inception, the Company has incurred cumulative losses of $25, 297,164 and for the year ended December 31, 2007, incurred negative operating cash flow from continuing operations of $2,479,397. The ability of the Company to continue as a going concern is dependant upon the acceptance of the education internet portal by the users to achieve a profitable level of operations by the Company and on the ability of the Company to obtain necessary financing to fund the Company's future business plan. The outcome of these matters cannot be predicted at this time. These financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the company be unable to continue as a going concern.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are presented in United States dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The significant accounting policies used in these consolidated financial statements are as follows:

*(a) Principles of consolidation*

These consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiaries, CEN China Education Network Ltd. ("CEN Network"), China Education International Inc. and CEN China Education Overseas Corporation; and its 90% owned subsidiaries CEN Smart Networks Ltd. ("CEN Smart") and Today's Teachers Technology & Culture Ltd. ("TTTC"). All significant inter-company transactions and accounts have been eliminated.

*(b) Use of estimates and measurement uncertainty*

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Actual results could differ from these estimates. The most significant estimates included in these consolidated financial statements are the amortization of website development cost, future income tax assets, accounts receivable provision and impairment assessments of website development cost and goodwill. Actual results could differ from the estimates used.

### 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

*(b) Use of estimates and measurement uncertainty - Continued*

The Company is currently focusing on deployment of its educational internet portal which aims to provide online training, educational content and resources to its users. Management expects the portal business will generate the majority of the Company's revenue in the near future. The recoverability of website development costs and management's assessment that goodwill is not impaired is currently supported by management's best estimate of projected cash flows from the new portal business. Because the internal portal business is new to the Company, the actual results are highly uncertain and could differ significantly from management's estimates resulting in significant adjustment to the carrying value of website development costs and goodwill.

*(c) Foreign currency translation*

The Company's reporting currency is the US dollar. All of the Company's operating subsidiaries are located in China. They are considered to be self sustaining operations and their functional currency is Renminbi ("RMB"). The parent company's functional currency is the Canadian dollar. Accordingly, the financial statements are translated to the U.S. dollar using the current rate method. Under the current rate method, amounts are translated using the current rates of exchange for assets and liabilities and using average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are included in accumulated other comprehensive income until there is a realized reduction in the parent's net investment in the foreign operations.

*(e) Accounts Receivable*

The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and recorded based on management's assessment of the credit history with the customer and current relationships with them.

*(f) Inventory*

Inventories, which consist of printed books and other education materials, are valued at the lower of cost and net realizable value, with cost being determined on a weighted average basis.

*(g) Equipment*

Equipment is recorded at cost. Amortization is provided for over the estimated useful life of the assets commencing when the asset is brought into use, using straight line method with the following annual rates:

## 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

*(g) Equipment - Continued*

| | |
|---|---|
| Computer equipment | 2 to 5 years |
| Software | 2 years |
| Office equipment | 5 years |
| Motor vehicle | 3 to 5 years |
| Website development costs | 3 years |

Website development costs are expensed as incurred unless they meet specific Canadian GAAP criteria for capitalization. Capitalized website development costs are recorded at cost and are amortized over the expected useful life on a straight line basis.

An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

*(h) Goodwill*

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination. When the net of the amounts assigned to identifiable net assets exceeds the cost of the purchase ("negative goodwill"), the excess is eliminated, to the extent possible, by a pro-rata allocation to certain non-current assets, with the balance presented as an extraordinary gain.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Impairment is assessed through a comparison of the carrying amount of the reporting unit with its fair value. When the fair value of a reporting unit is less than its carrying amount, goodwill of the reporting unit is considered to be impaired, and the fair value of the reporting unit's goodwill shall be compared with its carrying amount to measure the amount of the impairment loss. Any impairment of goodwill will be expensed in the period of impairment.

*(i) Leases*

Leases are classified as either capital or operating. Those leases, which transfer substantially all the benefits and risks of ownership of the property to the Company, are accounted for as capital leases. Capital lease obligations reflect the present value of future lease payments, discounted at the appropriate rate. All other leases are accounted for as operating leases wherein rental payments are charged to income as incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

*(j) Revenue recognition*

Sales from product sales are recognized when title and risk are transferred and payments are received or rights to receive consideration are obtained, evidence of an arrangement exists, and collection of consideration is reasonably assured. Revenues received in advance of these criteria are deferred until future periods.

Sales from distribution and consulting services are recognized when services are rendered and payments are received or rights to receive consideration are obtained and collection of consideration is reasonably assured. Revenues received in advance of these criteria are deferred until future periods. Sales from distribution and consulting services are not material.

Teacher training services provided through the internet portal are recognized when services are rendered and payments are received or rights to receive consideration are obtained and collection of consideration is reasonably assured.

Interest income is recognized when earned.

*(k) Stock-based compensation plans*

The Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 Stock-Based Compensation and Other Stock-Based Payments ("CICA 3870") with respect to the recognition, measurement, and disclosure of all stock-based compensation and other stock-based payments to employees and non-employees. Stock-based compensation granted to employees and non-employees is expensed at the fair value as determined using the Black-Scholes option valuation model.

*(l) Income taxes*

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized. Income tax expense or benefit is the sum of the Company's provision for current income taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

**2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*(m) Loss per share*

Basic loss per share is computed by dividing net loss (the numerator) by the weighted average number of outstanding common shares for the period (the denominator). Diluted loss per share has not been presented as the effect on basic loss per share would be anti-dilutive. Potentially dilutive securities include warrants and options are disclosed in Note 10.

*(n) Financial Instruments*

Effective January 1, 2007 the Company adopted the new recommendation of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "*Comprehensive Income*", Section 1651 "*Foreign Currency Translation*", Section 3251 "*Equity*", Section 3855 "*Financial Instruments – Recognition and Measurement*", Section 3861 "*Financial Instruments- Disclosure and Presentation*" and Section 3865 "*Hedges*". These new Handbook sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments.

Section 1530 "*Comprehensive Income*" establishes standards for reporting and presenting comprehensive income which is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but are excluded from net income calculated in accordance with GAAP. The Company had no items impacting comprehensive income except for cumulative translation adjustments during the year ended December 31, 2007.

Section 3251 "*Equity*" establishes standards for the presentation of equity and changes in equity during the period. It requires separate presentation of changes in equity that arise from net income, OCI, contributed surplus, retained earnings and share capital

Section 1651 "*Foreign Currency Translation*" requires companies to include, as a component of other comprehensive income, the exchange gains and losses arising from the translation of the financial statements of the company's self-sustaining foreign operations. The effect on the company's financial position is the reclassification of the cumulative translation adjustment from the balance sheet to comprehensive income.

Upon adoption of these sections, the Company has classified all financial instruments into one of the following five categories: 1) held for trading, 2) available for sale, 3) held to maturity, 4) loans and receivables, and 5) other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held to maturity and other financial liabilities which are measured at amortized costs. Transaction costs are included in the carrying value of financial instruments except for held-for-trading items in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

**2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*(n) Financial Instruments - Continued*

The Company has made the following classifications:

Cash is classified as financial assets held for trading and measured at fair value. Gains and losses related to periodical evaluations are recorded in net income.

Accounts receivable, other receivable, due from related party and long term receivable are classified as loans and receivables and initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities and long-term payables are classified as other liabilities and are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

The adoption of these new standards has not had a material impact on the Company's financial position as at January 1, 2007.

The Company currently does not utilize hedges or other derivative financial instruments in its operations, and as a result, the adoption of Section 3865 currently has no material impact on the financial statements of the Company.

*(o) Accounting changes*

As of January 1, 2007, the Company adopted revised CICA Section 1506 "Accounting Changes", which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted, or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP, or when the change results in more relevant and reliable information. There is no impact to the Company's financial statements as a result of implementing this new standard.

**2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*(p) New Canadian Accounting Pronouncements*

a) Inventories

In June 2007, CICA issued Section 3031, "Inventories", which replaces Section 3030, "Inventories". Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of "lower of cost and market". The new section contains guidance on the determination of cost and also requires the reversal of any write-downs previously recognized. Certain minimum disclosures are required, including the accounting policies used, carrying amounts, amounts recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses. The new standard will be effective for the Company's financial year beginning on January 1, 2008. Management is currently assessing the impact of this new accounting standard on its consolidated financial statements.

b) Capital Disclosures

In December 2006, the Canadian Accounting Standard ("AcSB") issued Section 1535, Capital Disclosures. This standard requires disclosure regarding what the Company defines as capital and its objectives, policy and processes for managing capital. In addition, disclosures are to include whether companies have compiled with externally imposed capital requirements. This standard will be effective for the Company's financial year beginning on January 1, 2008. Management is currently assessing the impact of these new accounting standards on its consolidated financial statements.

c) Financial Instruments

In December 2006, the AcSB issued two new Sections in relation to financial instruments: Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These two sections require an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how a company manages these risks. Both sections will be effective for the Company's financial year beginning on January 1, 2008. The Company does not expect the adoption of these new standards to have an impact on its consolidated financial statements.

d) Going Concern

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company does not expect the adoption of these changes to have an impact on its consolidated financial statements.

**(Expressed in U.S. Dollars)**

## 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

e) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The purpose of these sections is to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The section harmonizes Canadian standards with International Financial Reporting Standards and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is in the process of assessing the impact of this new section on its financial statements.

## 3. COMPARATIVES

Certain comparative figures have been reclassified to conform to the current year presentation including reclassification of $457,382 commission previously included in cost of sales to selling expenses. These reclassifications have not had an impact on results of operations for the period.

## 4. ACCOUNTS RECEIVABLE

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| Trade receivables | $ 304,613 | $ 355,623 |
| Bad debt provision | (35,158) | (69,268) |
| | $ 269,455 | $ 286,355 |

**(Expressed in U.S. Dollars)**

## 5. LONG-TERM OTHER RECEIVABLE

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| Loan due from Shengshi Education Service Company ("Shengshi") [i] | $ 623,205 | $ 976,015 |
| Bad debt provision | (39,209) | (393,825) |
| | $ 583,996 | $ 582,190 |

[i] Shengshi is a non-related business partner of one of the Chinese subsidiaries. The total loan due from Shengshi was $976,015 (RMB 7,630,000) of which $507,835 (RMB 3,970,000) was non-interest bearing and was due September, 2006, $168,852 (RMB 1,320,000) was bearing 10% interest and was due on June 2006 and $299,328 (RMB 2,340,000) was bearing 10% interest and was due on August 2006. Of the total loan, $623,205 (RMB 4,551,269) was collateralized by the shares of the Company owned by Beijing Anli Information and Consulting Company ("Anli") and a shareholder of the Company. In 2006, management determined the collectibility of this loan became uncertain. In light of this uncertainty management set up a provision of $393,825 (RMB3,078,731) for the portion of the loan that is unsecured and did not accrue the interest income. As at December 31, 2007, management set up additional provision of $39,209 (RMB 235,000).

## 6. EQUIPMENT AND WEBSITE DEVELOPMENT COST

| | 2007 | | |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value |
| Computer equipment | $ 465,848 | $ 208,423 | $ 257,425 |
| Office equipment | 116,588 | 37,526 | 79,062 |
| Motor vehicles | 381,112 | 248,802 | 132,310 |
| Leasehold improvement | 33,548 | - | 33,548 |
| Website development costs | 2,853,360 | 871,860 | 1,981,500 |
| | $ 3,850,456 | $ 1,366,611 | $ 2,483,845 |

(Expressed in U.S. Dollars)

**6. EQUIPMENT AND WEBSITE DEVELOPMENT COST - Continued**

| | 2006 | | |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value |
| Computer equipment | $ 316,110 | $ 107,614 | $ 208,496 |
| Software | 70,398 | 70,398 | - |
| Office equipment | 88,142 | 28,961 | 59,181 |
| Motor vehicles | 398,442 | 164,964 | 233,478 |
| Website development costs | 2,644,210 | - | 2,644,210 |
| | $ 3,517,302 | $ 371,937 | $ 3,145,365 |

The website development was substantially completed in January 2007 and the capitalized amount is amortized over 3 years.

**7. BUSINESS ACQUISITIONS**

**Today's Teachers Technology & Culture Ltd. ("TTTC")**

On August 1, 2002, the Company, through CEN Smart (a 90% owned subsidiary), acquired a 70% interest in TTTC, a distributor of educational products based in China. As a result of a net liability position of the non-controlling interest at the time of acquisition, no allocation of net assets was made to the non-controlling interest. However, the non-controlling interest has immediate claim to future profits, based on interest percentage, from the date of acquisition. On September 23, 2004, the Company, through CEN Smart, acquired an additional 17% interest in TTTC to increase its effective ownership interest in TTTC to 78.3%. On September 30, 2006, the Company through CEN Smart, acquired the remaining 13% in TTTC. As at December 31, 2007 and 2006, the Company's effective ownership interest in TTTC is 90%.

The aggregate purchase price for acquiring the additional 13% interest in TTTC was $99,788 [RMB 790,000] cash payable over four years with $25,263 [RMB 200,000] paid in March 2007, $25,263 [RMB 200,000] due on or before December 31, 2007 (unpaid as at March 31, 2008), $25,262 [RMB 200,000] due on or before December 31, 2008 and $24,000 [RMB190,000] due on or before December 31, 2009. The cash payment after discounting at 10% over the payment term was $87,140.

As a part of the purchase agreement, the Company was also discharged from the non-controlling interest Shareholder's share of earnings of TTTC accumulated from prior years totaling $357,018. This step acquisition has been accounted for by the purchase method with the fair value of the consideration paid being allocated to the fair value of the identifiable assets acquired and liabilities assumed as follows:

**(Expressed in U.S. Dollars)**

## 7. BUSINESS ACQUISITIONS

**Today's Teachers Technology & Culture Ltd. ("TTTC") - Continued**

| | |
|---|---|
| **Assets acquired** | |
| Current assets (including cash of $91,000) | $ 304,777 |
| Equipment | 7,804 |
| Website development cost | 27,301 |
| Total assets acquired | 339,882 |
| | |
| **Liabilities assumed** | |
| Current liabilities | 606,966 |
| Future income tax liabilities | 2,794 |
| Net liabilities assumed | $ (269,878) |
| | |
| Cash consideration (of which $22,248 is due after 2008) | $ 87,140 |
| | |
| Discharge of non-controlling interest accumulated | |
| Share of earnings | (357,018) |
| Excess of discharge of over cash consideration | $ (269,878) |

## 8. RELATED PARTY TRANSACTIONS

All related party transactions are recorded at the exchange amounts as agreed upon by the related parties.

| | 2007 | 2006 |
|---|---|---|
| Amount due from Beijing Anli Information and Consulting Company ("Anli"), net of bad debt provision of $33,259 [i] | $ 164,316 | $ 153,501 |

[i] Anli and its major shareholder are shareholders of the Company. In 2003, the Company advanced funds of $164,316 (RMB 1,200,000) to Anli. A loan agreement was signed on October 28, 2003 for a one-year term, non-interest bearing. The loan was subsequently extended to October 31, 2008. At December 31, 2007, the loan was collateralized by the shares of the Company owned by Anli.

The Company's subsidiary, CEN Smart rents its office space from Anli. The Company accrued rent of $22,018 for the year ended December 31, 2007 and paid rent of $20,354 for the year ended December 31, 2006.

## (Expressed in U.S. Dollars)

### 8. RELATED PARTY TRANSACTIONS - Continued

In 2007, the Company incurred $10,820 (2006: $nil) accounting fees for accounting services provided by a company controlled by an office of the Company. This amount is included in accounts payable as at December 31, 2007 (2006: $nil).

The Company rent office space from a company controlled by a director/officer of the Company. Included in accounts payable, is an amount due to this company of $2,130 (2006 - $nil) as at December 31, 2007. The Company paid rent of $21,600 (2006: $19,423) for the year ended December 31, 2007.

The Company paid management fees of $84,162 (2006: $52,795) to a corporation controlled by a former officer of the Company.

### 9. LOANS PAYABLE

| | 2007 | 2006 |
|---|---|---|
| Automobile loan [i] | $ - | $ 13,688 |

[i] The loan was repaid on November 14, 2007.

### 10. SHARE CAPITAL, WARRANTS AND STOCK OPTIONS

*(a) Share Capital*

The authorized capital consists of unlimited voting common shares without par value and 20,000,000 preferred shares. The preferred shares rank equally on winding up. The directors shall by resolution determine the rights and restrictions attaching to the preferred shares prior to their issuance. No preferred shares have been issued to date.

On October 24, 2007, the Company completed a non-brokered private equity placement of $298,636 (C$288,900) for 481,500 Units. Each Unit consists of one restricted common share in capital stock of the Company and one-half of one common share purchase warrant at a price of $0.59 (C$0.60) per Unit. The shares issued are subject to a hold period trading restriction that expired on February 28, 2008. The warrants can be exercised to purchase an additional 240,750 common shares at $0.79 (C$0.80) per share until April 24, 2008 and at $0.99 (C$1.00) per share thereafter until expiry on October 24, 2008. The Company paid $7,222 commission and $4,288 legal fees in relation to the private placement. The fair value of the 240,750 warrants was $33,705 and was estimated using the Black-Scholes option pricing model with assumptions as follows:

**(Expressed in U.S. Dollars)**

## 10. SHARE CAPITAL, WARRANTS AND STOCK OPTIONS - Continued

*(a) Share Capital - Continued*

| | |
|---|---|
| Risk free interest rate | 4.18% |
| Expected life of the conversion feature in years | 1.0 year |
| Expected volatility | 96% |
| Dividend per share | $0.00 |

During the year ended December 31, 2006, the following changes in issued share capital occurred:

[i] In 2006, 2,334,398 warrants were exercised with an exercise price ranging from $0.57 to $0.88 per share for total proceeds of $1,766,125.

[ii] In 2006, 167,500 stock options were exercised with an exercise price ranging from $0.44 to $0.80 per share for total proceeds of $124,946.

*(b) Options*

The Company has stock option plans that allow it to grant options to its employees, officers, directors and consultants to acquire up to 10% of issued and outstanding common stock. The exercise price of each option shall not be less than the weighted average closing price of the common shares on the TSX Venture Exchange on the last five trading days before the date of the grant. Options have a maximum term of five years and terminate thirty to ninety days following the termination of the optionee’s employment. The right to exercise the options will vest in installments over the life of the option as determined at the time the option is granted.

**(Expressed in U.S. Dollars)**

## 10. SHARE CAPITAL, WARRANTS AND STOCK OPTIONS - Continued

*(b) Options* - *Continued*

Changes in outstanding stock options were as follows:

| | Number of Shares | Weighted Average Exercise Price Per Share (USD) | Weighted Average Exercise Price Per Share (CND) |
|---|---|---|---|
| Balance, December 31, 2005 | 3,164,900 | $ 0.66 | $ 0.89 |
| Options granted | 704,000 | 0.94 | 1.05 |
| Options exercised | (167,500) | 0.75 | 0.86 |
| Options cancelled | (527,400) | 0.70 | 0.79 |
| Balance, December 31, 2006 | 3,174,000 | 0.70 | 0.92 |
| Options granted | 600,000 | 0.61 | 0.62 |
| Options cancelled | (150,000) | 0.91 | 0.92 |
| Balance, December 31, 2007 | 3,624,000 | 0.86 | 0.87 |

On August 20, 2007, the Company granted incentive stock options for 400,000 shares at a price of $0.59 (C$0.60) per share exercisable up to August 20, 2012 to directors and employees. All the options vested immediately.

On August 20, 2007, the Company granted incentive stock options for 100,000 shares at a price of $0.59 (C$0.60) per share exercisable up to August 20, 2008 to a consultant. 25% of the options vested on the date of grant and 25% of the options vest every three months thereafter for 9 months.

On October 26, 2007, the Company granted incentive stock options for 100,000 shares at a price of $0.69 (C$0.70) per share exercisable up to October 26, 2012 to an officer. The options vested immediately.

In 2006, the Company granted 704,000 stock options to its officers and employees with an exercise price of $0.937 (C$1.05) per share, being the fair market value of the underlying stock at the time of the grant. The options were vested on September 11, 2006 with a five year term. In December 2006, the board of directors of the Company approved to accelerate the vesting period of all of the unvested stock options to become vested immediately. The unamortized compensation costs prior to the modification of $47,797 and the incremental value of the amended stock options of $19,015 calculated using the Black Scholes Option pricing model were expensed in 2006.

## (Expressed in U.S. Dollars)

**10. SHARE CAPITAL, WARRANTS AND STOCK OPTIONS - Continued**

*(b) Options* **-** *Continued*

The following table summarizes the stock options outstanding at December 31, 2007:

| Range of Exercise Prices (USD) | Range of Exercise Prices (CND) | Number Outstanding at December 31, 2007 | Weighted Average Remaining Contractual Life (Years) | Number Exercisable at December 31, 2007 |
|---|---|---|---|---|
| $ 0.49 | $ 0.50 | 150,000 | 2.78 | 150,000 |
| 0.59 | 0.60 | 520,000 | 3.77 | 470,000 |
| 0.64 | 0.65 | 600,000 | 2.81 | 600,000 |
| 0.69 | 0.70 | 100,000 | 4.82 | 100,000 |
| 0.74 | 0.75 | 200,000 | 2.13 | 200,000 |
| 0.89 | 0.90 | 100,000 | 1.28 | 100,000 |
| 1.04 | 1.05 | 1,954,000 | 1.15 | 1,954,000 |
| $0.49 - $1.04 | $0.50 - $1.05 | 3,624,000 | 2.03 | 3,574,000 |

The following table summarizes the stock options outstanding at December 31, 2006:

| Range of Exercise Prices (USD) | Range of Exercise Prices (CND) | Number Outstanding at December 31, 2006 | Weighted Average Remaining Contractual Life (Years) | Number Exercisable at December 31, 2006 |
|---|---|---|---|---|
| $ 0.37 | $ 0.50 | 150,000 | 3.78 | 150,000 |
| 0.45 | 0.60 | 20,000 | 3.13 | 20,000 |
| 0.48 | 0.65 | 650,000 | 3.81 | 650,000 |
| 0.56 | 0.75 | 200,000 | 3.13 | 200,000 |
| 0.67 | 0.90 | 100,000 | 2.28 | 100,000 |
| 0.78 | 1.05 | 2,054,000 | 2.22 | 2,054,000 |
| $0.37 - $0.78 | $0.50 - $1.05 | 3,174,000 | 2.69 | 3,174,000 |

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

(Expressed in U.S. Dollars)

## 10. SHARE CAPITAL, WARRANTS AND STOCK OPTIONS - Continued

*(b) Options - Continued*

| | 2007 | 2006 |
|---|---|---|
| Risk free interest rate | 4.2% - 4.3% | 3.8% |
| Expected life of options in years | 1 to 5 years | 4 years |
| Expected volatility | 91.3% - 139.7% | 76.6% |
| Dividend per share | $0.00 | $0.00 |

During the year ended December 31, 2007, the weighted average grant date fair value of options granted during the period was $0.39 (C$0.40) and compensation expense of $218,068 (2006: $585,304) was recognized for options previously granted and vesting over time using the Black-Scholes option pricing model.

*(c) Warrants*

The following table summarized the status of the Company's share purchase warrants outstanding:

| Number of warrants outstanding as at January 1, 2007 | Issued during the period | Number of warrants expired/exercised during the period | Balance of warrants outstanding as at December 31, 2007 | Exercised price per warrant (CND) | Exercised price per warrant (USD) | Expiry date |
|---|---|---|---|---|---|---|
| 457,496 | - | - | 457,496 | $ 0.72 | $ 0.71 | January 17, 2008 |
| 42,401 | - | - | 42,401 | 1.14 | 1.13 | January 17, 2008 |
| | 240,750 | - | 240,750 | 0.80 | 0.79 | October 24, 2008 |
| 499,897 | - | - | 740,647 | | | |

| Number of warrants outstanding as at January 1, 2006 | Issued during the period | Number of warrants expired/exercised during the period | Balance of warrants outstanding as at December 31, 2006 | Exercised price per warrant (CND) | Exercised price per warrant (USD) | Expiry date |
|---|---|---|---|---|---|---|
| 481,926 | - | (24,430) | 457,496 | $ 0.72 | $ 0.58 | January 17, 2008 |
| 42,401 | - | - | 42,401 | 1.14 | 0.94 | January 17, 2008 |
| 524,327 | - | (24,430) | 499,897 | | | |

### 10. SHARE CAPITAL, WARRANTS AND STOCK OPTIONS - Continued

(c) Warrants - Continued

[i] Warrants granted on January 17, 2005 which has an expiry date of January 17, 2007 have been extended for another year to January 18, 2008. These warrants were expired subsequent to the year end.

[ii] The exercise price of the warrants granted on October 24, 2007 will be increased to $0.99 (C$1.00) if they are not exercised on or before April 24, 2008.

### 11. DISCONTINUED OPERATIONS

On April 25, 2006, the Company reached an agreement to sell a subsidiary, Northern Education Books Ltd. (“NEB”) for $1.07 million (C$1.2 million). The Company received cash of $750,269 (C$830,195) which included part of the proceeds of $722,981 (C$800,000) and interest revenue of $27,288 (C$30,195). The remaining proceeds comprise a one year promissory note of $351,930 (C$400,000). The Company has provided a full allowance against the balance of the unpaid proceeds of $351,930 as its collection is uncertain. The gain on sale of NEB was $280,296.

Pursuant to CICA Handbook Section 3475 “Disposal of Long-Lived Assets and Discontinued Operations”, the Consolidated Financial Statements of the Company for the year ended December 31, 2006 have been reclassified to reflect the discontinued operations of NEB. Accordingly, revenues, costs and expenses, assets and liabilities, and cash flows of discontinued operations have been segregated in the Consolidated Statements of Operations and Deficit, Consolidated Balance sheets, and Consolidated Cash Flow Statements. The net operating results, net assets and net cash flows of this division have been reported as “Discontinued Operations”.

### 11. DISCONTINUED OPERATIONS - Continued

Below is the summarized financial information for the Company's discontinued operations:

**NORTHERN EDUCATION BOOKS LTD.**
**BALANCE SHEET**

| (Expressed in U.S. Dollars) | | April 25, 2006 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ | 47,336 |
| Other current assets | | 457,142 |
| **Current assets of discontinued operations** | | 504,478 |
| Investment in book projects | | 177,597 |
| Equipment | | 1,127 |
| Goodwill | | 895,743 |
| **Total assets of discontinued operations** | $ | 1,578,945 |
| LIABILITIES | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ | 358,095 |
| Income tax payable | | 778,165 |
| **Total liabilities of discontinued operations** | | 1,136,260 |
| **Net assets of NEB disposed** | $ | 442,685 |

## 11. DISCONTINUED OPERATIONS - Continued

### NORTHERN EDUCATION BOOKS LTD.
### STATEMENT OF OPERATION

| (Expressed in U.S. Dollars) | | April 25, 2006 |
|---|---|---|
| REVENUE | | |
| Sales | $ | 2,142 |
| Cost of sales | | (1,586) |
| Gross profit | | 556 |
| EXPENSES | | 36,464 |
| Losses before income taxes | | (35,908) |
| Income tax expense | | - |
| Net loss from discontinued operations | | (35,908) |
| Gain on sale of NEB | | 280,296 |
| Gain from discontinued operations | $ | 244,388 |

### NORTHERN EDUCATION BOOKS LTD.
### CASH FLOW STATEMENT

| (Expressed in U.S. Dollars) | | April 25, 2006 |
|---|---|---|
| Cash used in operating activities of discontinued operations | $ | (347,157) |
| Cash used in investing activities of discontinued operations | | (1,034) |
| Net cash outflow | | (348,191) |
| Cash, beginning of period | | 395,527 |
| Cash, end of period | $ | 47,336 |

## 12. TAXATION

The Company is subject to Canadian federal and provincial income taxes at an approximate rate of 34.12% [2006 - 34.12%]. The Company's Chinese subsidiaries are subject to Chinese taxes.

The reconciliation of the provision (recovery) for income taxes at the Canadian statutory rate compared to the Company's income tax expense as reported is as follows:

| **Tax expense (recovery) at Canadian statutory rates** | **2007 $'000** | **2006 $'000** |
|---|---|---|
| Loss before taxes, non-controlling interest and discontinued operations | (4,698) | (2,870) |
| Statutory tax rate | 34.12% | 34.12% |
| Combined Canadian federal and provincial income taxes at expected rate | (1,603) | (979) |
| Foreign income income tax differential | 330 | 197 |
| Change in valuation allowance | 9 | 567 |
| Utilization of loss carried forward | - | 137 |
| Non deductible expenses | 251 | 404 |
| Expiration of loss carryforwards | 332 | 157 |
| Rate change and others | 253 | (252) |
| Total | (428) | 231 |

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities as of December 31, 2007 and 2006 are as follows:

**12. TAXATION - Continued**

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Excess of tax base over accounting base for certain current assets and liabilities | 620 | 616 |
| Net operating loss carried forward | 1,716 | 1,385 |
| Net capital loss carried forward | 483 | 483 |
| Other | 19 | 17 |
| Total future tax assets | 2,838 | 2,501 |
| Valuation allowance | (2,368) | (2,359) |
| Future income tax assets | 470 | 142 |
| Excess of accounting base over tax base relating to website development cost | 495 | 581 |
| Future tax liability | 495 | 581 |
| Net future income tax liabilities | 25 | 439 |

| **Income tax expenses consisted of:** | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Current income tax expense | 4 | 47 |
| Future income tax (recovery) expense | (432) | 184 |
| Total | (428) | 231 |

The Company has recognized a valuation allowance for the future tax assets for which it is more likely than not that realization will not occur.

As at December 31, 2007, the Company has non-capital loss carry forwards for Canadian purposes aggregating approximately $4,620,000 available to reduce taxable income otherwise calculated in future years. These losses expire from year 2008 to 2027. The Company also has non-capital loss carry forwards for China tax purposes aggregating $1,943,000 available to reduce taxable income otherwise calculated in future years. $672,000 of the losses will expire in 2011 and $1,272,000 losses will expire in 2012 if unused.

**12. TAXATION - Continued**

The Company also has capital losses of $1,208,000 available to offset future capital gains in Canada.

The Company, through its subsidiaries, conducts a significant amount of its business in China. China currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for a significant period, in contrast to more developed market economies; therefore, implementing regulations are often unclear or nonexistent. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus, creating uncertainties and areas of conflict.

Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in China substantially more significant than typically found in countries with more developed tax systems.

The risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review.

The Company is subject to a late payment surcharge on an amount outstanding to the tax authorities in charge. Depending on the extent and significance of late payment, the Company is also subject to a penalty of up to five times the amount that is overdue. The ultimate amount of penalty may be reduced by negotiation with the local tax authorities in charge. The Company has accrued relevant penalty based on 0.05% a day on outstanding balance as at December 31, 2007 and 2006.

In 2007, the National People’s Congress of China passed “The Law of the People's Republic of China on Enterprise Income Tax” (the “Enterprise Income Tax Law”). The Enterprise Income Tax Law became effective on January 1, 2008. This new law eliminated the existing preferential tax treatment that is available to the foreign invested enterprises (“FIEs”) but provides grandfathering of the preferential tax treatment currently enjoyed by the FIEs. Under the new law, both domestic companies and FIEs are subject to a unified income tax rate of 25%. CEN may be able to preserve its tax holiday under the grandfathering provisions in the Enterprise Income Tax Law. Management will continue to monitor the implementation rules of the grandfathering provisions of the new law.

**13. FINANCIAL INSTRUMENTS**

The carrying amount of cash, accounts receivable, other receivable, long term receivable accounts payable and accrued liabilities, income tax payable, and loans payable approximate their fair value due to the short-term nature of these instruments. The carrying value of long term payable approximates the fair value based on the discounted cash flows at market rate. It is not practical to determine the fair value of the amounts due from related parties with sufficient reliability due to the nature of the financial instruments, the absence of secondary markets and the significant cost of obtaining outside appraisals.

**13. FINANCIAL INSTRUMENTS - Continued**

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates and the business operations are predominately in Chinese RMB.

The financial instruments that potentially subject the Company to significant concentration of credit risk consist principally of cash and accounts receivable. Cash is on deposit at major financial institutions. Management is of the opinion that credit risk with respect to accounts receivable is limited due to the ongoing evaluations of its debts and the monitoring of their financial condition to ensure collections and to minimize losses.

Three (2006: Four) customers represent in excess of 10% of trade accounts receivable at December 31, 2007. Two (2006: Two) customers represent in excess of 10% of total revenue at December 31, 2007.

The majority of the Company’s assets, liabilities, revenues and expenses are denominated in RMB, which was tied to the US Dollar and is now tied to a basket of currencies of China’s largest trading partners, is not a freely convertible currency. The appreciation of the RMB against the US Dollar would result in an increase in the assets, liabilities, revenues and expenses of the Company and a foreign currency gain included in comprehensive income. Conversely, the devaluation of the RMB against the US Dollar would result in a decrease in the assets, liabilities, revenues and expenses of the Company and a foreign currency loss included in comprehensive income. At December 31, 2007, approximately $270,418 (C$267,200) of the cash was held in RMB. The Company is not subject to significant interest risk.

Fluctuation in the value of Canadian dollar relative to US dollar has some impact on the Company’s head office financial results. However, such exchange rate fluctuations have not materially affected the overall financial earnings and results on a consolidated basis.

**14. SEGMENTED INFORMATION**

The Company has two reporting business segments, Book Selling and Internet Portal, with two reportable geographic segments located in Canada and China. The business segments have been segregated based on products offerings, reflecting the way that management organizes the segments within the business for making operating decisions and assessing performance.

The accounting policies of the segments are the same as those described in the significant accounting plicies note. There were no inter-segment sales or transfers during the reported periods.

(Expressed in U.S. Dollars)

**14. SEGMENTED INFORMATION - Continued**

*(i) Geographic Information*

The Company's head office is located in Vancouver, British Columbia, Canada. The operations of the Company are primarily in two geographic areas: Canada and China. All of the Company's revenue is generated in China. All goodwill and majority of all of the capital assets are located in China. A summary of geographical information for the Company's assets and net loss for the years is as follows:

| **Year ended December 31, 2007** | **Canada** | **China** | **Total** |
|---|---|---|---|
| Revenue from external customers | $ - | $ 1,439,637 | $ 1,439,637 |
| Equipment and website development costs | 2,338 | 2,481,507 | 2,483,845 |
| Goodwill | - | 2,998,875 | 2,998,875 |

| **Year ended December 31, 2006** | **Canada** | **China** | **Total** |
|---|---|---|---|
| Revenue from external customers | $ - | $ 1,435,581 | $ 1,435,581 |
| Equipment and website development costs | 5,182 | 3,140,183 | 3,145,365 |
| Goodwill | - | 2,802,128 | 2,802,128 |

# China Education Resources Inc.

## Notes to the Consolidated Financial Statements

## Years Ended December 31, 2007 and 2006

## (Expressed in U.S. Dollars)

**14. SEGMENTED INFORMATION - Continued**

*(ii) Business Segments*

The Company's operations are classified into two reportable business segments: Book Selling and Internet Portal.

Summarized financial information for the year ended December 31, 2007 and 2006 concerning the Company's business segments is as follows:

| Year ended December 31, 2007 | Book Selling | Internet Portal | Corporate | Total |
|---|---|---|---|---|
| Revenue from external customers | $ 440,827 | $ 998,810 | $ - | $ 1,439,637 |
| Interest revenue | 1,356 | 1,891 | 21,506 | 24,753 |
| Interest expense | 1,475 | 3,342 | 479 | 5,296 |
| Amortization | 70,354 | 929,075 | 3,128 | 1,002,557 |
| Segment loss | (1,033,365) | (1,656,683) | (1,447,622) | (4,137,670) |
| Segment asssets | 817,672 | 6,166,326 | 69,523 | 7,053,521 |
| Expenditure for segment capital assets | - | 120,465 | 2,584 | 123,048 |

| Year ended December 31, 2006 | Book Selling | Internet Portal | Corporate | Total |
|---|---|---|---|---|
| Revenue from external customers | $ 1,435,581 | $ - | $ - | $ 1,435,581 |
| Interest revenue | 34,180 | - | 54,203 | 88,383 |
| Interest expense | 6,082 | - | 984 | 7,066 |
| Amortization of capital assets | 113,837 | - | 1,390 | 115,227 |
| Segment loss | (1,006,348) | - | (1,562,039) | (2,568,387) |
| Segment asssets | 2,383,447 | 5,446,338 | 2,060,791 | 9,890,576 |
| Expenditure for segment capital assets | - | 1,861,552 | 3,451 | 1,865,003 |

**(Expressed in U.S. Dollars)**

## 15. COMMITMENTS

The Company has commitments in respect of office and warehouse leases in China requiring the following payments:

| | | |
|---|---|---|
| 2008 | $ | 125,837 |
| 2009 | | 116,615 |
| 2010 | | 116,615 |
| 2011 | | 116,615 |
| 2012 | | 106,897 |
| Total | $ | 582,579 |

TTTC entered into an agreement with a Chinese government agency to reference its name in the Company's internet training website, whereby the Company agreed to pay $164,300 (RMB1,200,000) per year until 2009 and $68,500 (RMB500,000) in 2010.

## 16. SUBSEQUENT EVENTS

On January 17, 2008, the Company completed a $2,300,000 private placement consisting of 4.6 million common shares at $0.49 (C$0.50) each. The shares are subject to a four-month hold period, expiring May 18, 2008.

On February 21, 2008, the Company granted 650,000 common share purchase options to directors and employees. These options vested immediately and are exercisable at a price of $0.60 per common share expiring February 21, 2013. The Company also cancelled 100,000 common share purchase options held by a former employee.