

Edgar Filing: HQ Global Education Inc. - Form 10-Q

HQ Global Education Inc.  
Form 10-Q  
January 14, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 333-150385

HQ GLOBAL EDUCATION INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

26-1806348  
(I.R.S. Employer  
Identification No.)

27th Floor, BOBO Fortune Center, No.368, South Furong Road,  
Changsha City, Hunan Province, 410007  
People's Republic of China  
(Address of principal executive offices)

Tel: (86 731) 87828601  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of January 14, 2011, 33,000,000 shares of the Company's common stock, \$0.0001

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par value, were issued and outstanding.

### HQ GLOBAL EDUCATION INC. FORM 10-Q

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#### PART I. FINANCIAL INFORMATION

##### ITEM 1. UNAUDITED FINANCIAL STATEMENTS

### HQ GLOBAL EDUCATION INC. CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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	November 30, 2010
	-----
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 9,798,855
Accounts receivable	10,524,328
Other receivables	1,339,009
Inventory	460,959
Advances to vendors	1,874,313
	-----
Total current assets	23,997,464
PROPERTY AND EQUIPMENT, NET	31,618,255
INTANGIBLE ASSETS, NET	2,059,593
	-----
TOTAL ASSETS	\$ 57,675,312
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Short-term loans	\$ 1,342,427
Long-term loans - current portion	652,465
Accounts payable	2,057,023
Payroll tax payable	14,277
Payroll payable	571,056
Unearned revenues	4,718,248
Due to shareholder - current portion	46,666
Other payables and accrued liabilities	855,961
	-----
Total current liabilities	10,258,123
Long-term loans, less current portion	--
	-----
Due to shareholder, net of current portion	310,000
	-----
Other long-term payables	98,310
	-----
TOTAL LIABILITIES	10,666,433
	-----
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY	
Preferred stock, \$0.001 par value, 40,000,000 shares authorized, none issued and outstanding	--
Common Stock, \$0.0001 par value 100,000,000 shares authorized, 33,000,000 shares issued and outstanding at November 30, 2010 and August 31, 2010	3,300
Additional paid-in capital	1,226,674
Accumulated other comprehensive income	2,661,151
Statutory reserve	11,720,727
Retained earnings	31,397,027
	-----
Total shareholders' equity	47,008,879
	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 57,675,312
	=====

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The accompanying notes are an integral part of  
these condensed consolidated financial statements.

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HQ GLOBAL EDUCATION INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(UNAUDITED)

	For the three months ended November 30,	
	2010	2009
Revenues		
Fee based	\$ 12,198,708	\$ 8,798,076
Service based	4,443,050	4,211,002
	16,641,758	13,009,078
Cost of revenues		
Fee based	(6,177,728)	(4,293,119)
Service based	(3,970,014)	(3,565,373)
	(10,147,742)	(7,858,492)
Gross profit	6,494,016	5,150,586
Selling expenses	(169,225)	(136,094)
General and administrative expenses	(780,402)	(451,564)
	5,544,389	4,562,928
Income from operations		
Other expenses		
Interest expenses	(30,574)	(19,361)
Other expenses	(29,035)	(969,397)
Total other expenses	(59,609)	(988,758)
Income before income taxes	5,484,780	3,574,170
Provision for income taxes	--	--
Net income	5,484,780	3,574,170
Other comprehensive income		
Foreign currency translation income	875,223	13,865
Comprehensive Income	\$ 6,360,003	\$ 3,588,035
Basic and diluted income per common share	\$ 0.17	\$ 0.17
Basic and diluted weighted average common shares outstanding	33,000,000	20,500,000

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HQ GLOBAL EDUCATION INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	For the three months November 30, 2010	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,484,780	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	576,556	
Loss on retirement of property & equipment	--	
Changes in assets and liabilities		
(Increase) decrease in -		
Accounts receivable	(1,306,289)	
Other receivables	(1,288,187)	
Inventory	226,707	
Increase (decrease) in -		
Accounts payable	(268,430)	
Payroll Payable	222,059	
Taxes payable	10,942	
Unearned revenues	4,703,089	
Other payables and accrued liabilities	(13,302)	
	-----	-----
Net cash provided by operating activities	8,347,925	
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of intangible assets	--	
Acquisition of property & equipment	(2,555,154)	
Advances to vendors - construction in progress	(1,306,128)	
	-----	-----
Net cash used in investing activities	(3,861,282)	
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on long term loan	(74,755)	
Proceeds from loans to related party	--	
Due to shareholder	46,666	
	-----	-----
Net cash provided by (used in) financing activities	(28,089)	
	-----	-----
EFFECT OF EXCHANGE RATE CHANGE ON CASH & CASH EQUIVALENTS	114,537	
NET INCREASE IN CASH & CASH EQUIVALENTS	4,573,091	
CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD	5,225,764	
	-----	-----
CASH & CASH EQUIVALENTS, END OF PERIOD	\$ 9,798,855	\$

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Supplemental disclosures of cash flow information:

Interest paid

=====  
\$ 30,665  
=====

==  
\$  
==

The accompanying notes are an integral part of these condensed consolidated financial statements.

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### HQ GLOBAL EDUCATION INC. NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

HQ Global Education Inc. ("the Company"), provides a wide range of educational programs and services through vocational schools, consisting primarily of customized education programs for various vocational skills and vocational training services to a varied student population throughout the People's Republic of China.

The Company, formerly known as Green Star Mining Corp., was incorporated under the laws of the State of Delaware on January 22, 2008. On February 8, 2010, the Company acquired all of the outstanding capital stock of Risetime Group Limited ("Risetime"), a BVI business company incorporated in British Virgin Islands on December 17, 2007. Risetime owns 100% of the equity of Xiangtan Nicestar Business Administration Co., Ltd. ("Xiangtan Nicestar") through its 100% subsidiary, Global Education International Ltd. ("GEI"), an investment holding company incorporated in Hong Kong on November 15, 2007. Xiangtan Nicestar is a wholly foreign-owned enterprise incorporated in Xiangtan City, Hunan Province, People's Republic of China ("PRC") on September 30, 2009 and is primarily engaged in providing business administration, planning and consulting services. Substantially all Risetime and GEI's operations are conducted in China through Xiangtan Nicestar, and through contractual arrangements with Xiangtan Nicestar's consolidated affiliated entities in China, including Hunan Oya Education Technology Co., Ltd. ("Oya") and Oya's subsidiaries and variable interest entities ("VIEs"). Oya is a company incorporated in Changsha City, Hunan Province, PRC on November 20, 2008 and is primarily engaged in providing vocational education service and vocational skills training service.

In connection with the acquisition, the Company issued 20,500,000 shares of common stock to the shareholder of Risetime in exchange for all of the capital stock of Risetime (the "Share Exchange" or "Merger"). Upon the completion of the Merger, the shareholders of Risetime own 62.12% of the issued and outstanding capital stock of the Company and consequently control the business and operation of the Company.

The acquisition was accounted for as a reverse acquisition under the purchase method of accounting since there was a change of control. Accordingly, Risetime and its subsidiaries will be treated as the continuing entity for accounting purposes.

In March 2010, subsequent to the end of the second quarter of fiscal year 2010, Green Star Mining Corp. changed its name to HQ Global Education Inc. to more effectively reflect the Company's business and communicate the Company's brand identity to customers.

On July 28, 2009, Oya entered into certain exclusive agreements with Changsha Huanqiu Vocational Secondary School ("Changsha Huanqiu") and Shaoshan Huanqiu Vocational Technical Secondary School ("Shaoshan Huanqiu") and their

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shareholders. Pursuant to these agreements, Oya provides exclusive consulting and other general business operation services to Changsha Huanqiu and Shaoshan Huanqiu in exchange for substantially all net income of Changsha Huanqiu and Shaoshan Huanqiu. Oya has the right to appoint all senior management personnel of Changsha Huanqiu and Shaoshan Huanqiu.

On November 28, 2009, Xiangtan Nicestar entered into certain exclusive agreements with Oya and its shareholders. Pursuant to these agreements, Xiangtan Nicestar provides exclusive consulting and other general business operation services to Oya in exchange for all net income of Oya. All voting rights of Oya are assigned to Xiangtan Nicestar and Xiangtan Nicestar has the right to appoint all directors and senior management personnel of Oya. In addition, Oya's shareholders have pledged their equity interest in Oya to Xiangtan Nicestar as collateral for the fees for consulting and other services due to Xiangtan Nicestar.

As a result of these contractual arrangements, which obligate Oya to absorb a majority of the risk of loss from Changsha Huanqiu and Shaoshan Huanqiu's activities and enable Oya to receive a majority of its expected residual returns, Oya accounts for Changsha Huanqiu and Shaoshan Huanqiu as variable interest entities under ASC 810-10, "Consolidation". Accordingly, Oya has included the accounts of Changsha Huanqiu and Shaoshan Huanqiu in its consolidated financial statements. For the same reason, Xiangtan Nicestar accounts for Oya as a VIE and includes Oya's accounts in its consolidated financial statements.

### BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. These condensed consolidated financial

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statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 29, 2010. Operating results for the three months ended November 30, 2010 are not necessarily indicative of the results that may be expected for the full year.

### PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The condensed consolidated financial statements include the financial statements of the Company, Risetime, GEI, Xiangtan Nicestar, Oya, as well as Oya's subsidiaries and VIEs. All significant inter-company balances and transactions are eliminated in consolidation.

The Company has 11 VIEs in total including Oya. Oya operates four private secondary vocational schools (Changsha Huanqiu, Shaoshan Huanqiu, Hunan New HQ Technical School and Tianzhen Huanqiu Technical Secondary School) and a public secondary vocational school (Shaoshan Vocational School) in China. Through Changsha Huanqiu, the Company operates five public secondary vocational schools, Yingjing Vocational School, Tianquan Vocational School, Shimian Vocational School, Lushan Vocational School and Shaoyang Vocational School.

### USE OF ESTIMATES

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The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates are used for, but not limited to, the selection of the useful lives and residual values of property and equipment and intangible assets, provision necessary for contingent liabilities, fair values, revenue recognition, and other similar charges. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent. Actual results could differ from these estimates.

### CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. The Company maintains uninsured cash and cash equivalents with various banks in the PRC. The Company has not experienced any losses to date as a result of this policy.

### ACCOUNTS RECEIVABLE

Accounts receivable consist of balances receivable for the charges of education services provided and for tuition revenues. Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible amounts. As of November 30, 2010 and August 31, 2010, total accounts receivable were \$10,524,328 and \$9,023,824 respectively, of which, \$8,339,334 and \$6,946,895 were tuition fees due from governmental organizations and associations under the impoverished student aid programs for the periods ended November 30, 2010 and August 31, 2010.

According to the Company's policy, accounts receivable over 90 days are considered overdue. The Company does periodical reviews as to whether the carrying values of accounts have become impaired. The assets are considered to be impaired if the collectability of the balances become doubtful, accordingly, the management estimates the allowance for anticipated uncollectible receivable balances. When facts subsequently become available to indicate that the allowance provided requires an adjustment, then the adjustment will be recorded as a change in allowance for doubtful accounts. As of November 30, 2010 and August 31, 2010, the allowance for doubtful accounts was \$-0-.

### INVENTORIES

Inventories are stated at the lower of cost and market value. Cost is calculated using the weighted average method. The Company estimates the write-down of excessive, slow moving and obsolete inventory as well as inventory whose carrying value is in excess of net realizable value. As of November 30, 2010 and August 31, 2010, no reserve was considered necessary.

### ADVANCES TO VENDORS

Advances to vendors consist of balances paid for materials for construction of classrooms and related teaching facilities that have not been provided to or received by the Company. Advances to vendors are reviewed periodically to determine whether their carrying value has become impaired. The Company considers the assets to be impaired if facts and circumstances indicate that the collectability of the services and materials become doubtful. The Company has

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determined that no reserve is necessary as of November 30, 2010 and August 31, 2010.



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### PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation and any impairment losses. The cost of an asset is comprised of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are charged to operations in the period in which they are incurred.

In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefit expected to be obtained from the use of the asset beyond its originally assessed standard of performances, the expenditure is capitalized as an additional cost of the asset.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, less any estimated residual value. Estimated useful lives of the assets are as follows:

Teaching and dormitory facilities	10-30 years
Educational equipments and books	5 years
Office equipments and other equipments	5 years
Automobiles	5 years

Any gain or loss on disposal or retirement of property and equipment represents the difference between the net sales proceeds and the carrying amount of the asset, and is recognized in the statements of incomes in the period it occurred.

### CONSTRUCTION-IN-PROGRESS

The Company constructs certain properties and equipment to be used in its operations. External costs directly related to the construction of such assets, including equipment installation and shipping costs, are also capitalized. Depreciation expense is not recorded on construction-in-progress until such assets are placed in service.

### INTANGIBLE ASSETS

Intangible assets are accounted for in accordance with the provisions of ASC 350, "Goodwill and Other Intangible Assets". Under ASC 350, intangible assets deemed to have indefinite useful lives are not amortized. Indefinite-lived intangible assets are assessed for impairment at least annually based on comparisons of their respective fair values to their carrying values. Intangible assets with a finite useful life are amortized over their useful lives.

### IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company is required to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

The Company tests long-lived assets, including property, plant and equipment and other assets, for recoverability when events or circumstances indicate that the net carrying amount is greater than its fair value. Assets are grouped and evaluated at the lowest level for their identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the

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future estimated cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company measures the amount of impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is generally determined by using the asset's expected future discounted cash flows or market value. The Company estimates fair value of the assets based on certain assumptions such as budgets, internal projections, and other available information as considered necessary. There was no impairment of long-lived assets during the three months ended November 30, 2010 and 2009.

### UNEARNED REVENUES

Unearned revenues represent amounts received in advance for tuition and service fees. The Company recognizes these funds as a current liability until the revenue can be recognized. The balance of unearned revenues is not refundable.

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### REVENUE RECOGNITION

The Company recognizes revenues in accordance ASC 605 "Revenue Recognition when the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the services have been rendered, (iii) the fees are fixed or determinable and (iv) collection of the resulting receivable is reasonably assured.

- (a) Tuition revenue received for educational programs and services is recognized proportionately according to the progress the students completing the educational programs in the school. Tuition paid in advance is recorded as unearned revenues.
- (b) The Company provides off-campus internship programs for students. The Company has arrangements with certain regional corporations in which these entities are the sponsors for off-campus internship programs which last two to three months. The Company collects a fixed amount of fees from both the internship sponsor and the student after the student is admitted into the programs. Revenue is recognized upon completion of the internship program.
- (c) The Company provides other services mainly cafeteria and laundry services for students and the revenue from such services is recognized upon completion of the service.

### COST OF REVENUES

Fee based cost of revenues for educational programs and services primarily consists of teaching fees and performance-based teaching fees paid to our teachers, depreciation and amortization of property and equipment used in the provision of educational services, and rental payments for one of our schools, as well as costs of course materials and other expenses.

Service based cost of revenues primarily consists of salaries of related employees, cost of materials and water and electricity fees used by canteens, depreciation and amortization of property and equipment used by related departments, and other expenses.

Above mentioned cost is expensed as incurred.

### INCOME TAXES

The Company did not generate any taxable income outside of the PRC for the three months ended November 30, 2010 and 2009 and the Company is governed by the Income Tax Law of the PRC. The Company accounts for income taxes using an asset and liability approach which allows for the recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in

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future years. Under the asset and liability approach, deferred taxes are provided for 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. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain.

The Company had no deferred tax items as of November 30, 2010 and August 31, 2010.

### COMPREHENSIVE INCOME

ASC 220, "Comprehensive Income" requires disclosure of all components of comprehensive income and loss on an annual and interim basis. Comprehensive income and loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income represents income that arose from the changes in foreign currency exchange rates.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the provisions of Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2 - Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

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Level 3 - Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The Company's financial instruments include cash and cash equivalents, accounts receivable, advances to suppliers, other receivables, accounts payable, accrued expenses, taxes payable, notes payable, other payables and accrued liabilities, unearned revenues, and short-term loans payable. Management has estimated that the fair value of these financial instruments approximate their carrying amounts due to the short-term nature. The fair value of long-term loans also approximate their recorded value because the interest rates charged under the loan terms are not substantially different than current interest rates.

### EARNINGS PER SHARE

Basic earnings per share is measured as net income divided by the weighted average common shares outstanding for the period. Diluted EPS includes the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS. The Company does not have any potential diluted shares outstanding as of November 30, 2010 and August 31, 2010.

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In February 2010, the Company entered into a share exchange transaction which has been accounted for as a reverse acquisition under the purchase method of accounting since there has been a change of control. The Company computes the weighted-average number of common shares outstanding in accordance with ASC 805, Business Combinations, which states that in calculating the weighted average shares when a reverse acquisition takes place in the middle of the year, the number of common shares outstanding from the beginning of that period to the acquisition date shall be computed on the basis of the weighted-average number of common shares of the legal acquiree (the accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement. The number of common shares outstanding from the acquisition date to the end of that period shall be the actual number of common shares of the legal acquirer (the accounting acquiree) outstanding during that period.

### FOREIGN CURRENCY TRANSLATION

The Company's condensed consolidated financial statements are presented in US dollars. In accordance with ASC 830, "Foreign Currency Matters", an entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash. Since substantially all operations of the Company are conducted in the PRC, the functional currency of the Company is Renminbi ("RMB"). The condensed consolidated financial statements of the Company have been translated into U.S. dollars. The financial statements are first prepared in RMB and then are translated into U.S. dollars at period-end exchange rates as to assets and liabilities and average exchange rates as to revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income in shareholders' equity.

	November 30, 2010	August 31, 2010	November 30, 2009
	-----	-----	-----
Period end exchange rate (RMB: US\$)	6.6670	6.8074	6.8271
Average exchange rate for the period (RMB: US\$)	6.6885	6.8178	6.8276

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US dollars at the rates used in translation.

### ADVERTISING

Advertising is expensed as incurred. Advertising expenses which were included in selling expenses amounted to \$2,007 and \$3,723 for the three months ended November 30, 2010 and 2009, respectively.

### OPERATING LEASES

The Company leases offices, classrooms, and warehouse facilities under operating leases. Leases where substantially all the rewards and risks of ownership of assets remain with the lesser are accounted for as operating leases. Rental payables under operating lease are recognized as expense on a straight-line basis over the lease term.

### RECENT ACCOUNTING PRONOUNCEMENTS

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In May 2010, ASC Update No. 2010-19 Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates (SEC Update). In this update the staff clarifies that upon application of highly inflationary accounting registrants must follow the accounting outlined in paragraph ASC 830-10-45-11, which states that "the financial statements of a foreign entity in a highly inflationary economy shall be remeasured as if the functional currency were the reporting currency. Specifically, the disclosure requirements at year end and interim period when the reported balances in an entity's financial statements that are differ from their underlying U.S. Dollar denominated values. This update is effective on March 18, 2010, the date of the announcement by the Staff of the SEC . This update does not have a material effect on the Company's unaudited condensed consolidated financial statements.

In March 2010, ASC Update No. 2010-13, Compensation--Stock Compensation (Topic 718): "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades--a consensus of the FASB Emerging Issues Task Force." This is an update regarding the effect of denominating the exercise price of a share-based payment awards in the currency of the market in which the underlying equity securities trades and that currency is different from (1) entity's functional currency, (2) functional currency of the foreign operation for which the employee provides services, and (3) payroll currency of the employee. The update clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should be considered an equity award assuming all other criteria for equity classification are met. The update will be effective for interim and annual periods beginning on or after December 15, 2010, and will be applied prospectively. Affected entities will be required to record a cumulative catch-up adjustment for all awards outstanding as of the beginning of the annual period in which the guidance is adopted. This update is not expected to have a material impact on the Company's unaudited condensed consolidated financial statements.

### NOTE 3. INVENTORY

Inventory consists of the following:

	As of November 30, 2010	As of August 31, 2010
	-----	-----
Course materials	\$ 74,212	\$ 6,052
Logistic supplies	60,534	193,172
Office supplies	15,313	7,683
Other materials and supplies	93,265	244,275
Textbooks (1)	217,635	223,018
	-----	-----
Total	\$460,959	\$674,200
	=====	=====

- (1) Textbooks sold to students at the beginning of each semester are recognized as inventory, and books which belong to each school and stored in libraries are long-lived assets and are recognized as property and equipment.

### NOTE 4. RELATED PARTY TRANSACTIONS

The balance due to shareholder consists of the following:

	As of November 30, 2010	As of August 31, 2010

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Loan from Mr. He Guangwen (1)	\$310,000	\$310,000
Rental and other expenses payable to Mr. He Guangwen (2)	46,666	--
Total	356,666	310,000
Less current portion	46,666	--
Long-term portion	\$310,000	\$310,000

- (1) The loan from Mr. He Guangwen, a major shareholder of the Company, is unsecured, bears no interest, with term of two years and is payable on February 28, 2012.
- (2) The Company rents office facilities from Mr. He Guangwen under a fifteen-year agreement for annual rental of US\$ 74,996.

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NOTE 5. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

	As of November 30, 2010	As of August 31, 2010
Teaching and dormitory facilities	\$ 14,515,396	\$ 14,216,065
Educational equipment and books	3,972,396	3,777,296
Office equipment and other equipment	5,579,055	3,923,700
Automobiles	300,379	294,185
Leasehold improvement	107,095	--
	24,474,321	22,211,246
Less: accumulated depreciation	(7,394,152)	(6,686,419)
Add: Construction in progress	14,538,086	13,484,967
	\$ 31,618,255	\$ 29,009,794

Depreciation expense for the three months ended November 30, 2010 and 2009 was \$563,937 and \$385,423, respectively.

NOTE 6. INTANGIBLE ASSETS, NET

As of November 30, 2010 and August 31, 2010, intangible assets consist of land use rights, which are recorded at cost less accumulated amortization. Amortization is on a straight-line basis over the estimated useful lives, which is generally 50 years and represents the shorter of the estimated usage periods or the terms of the agreements. The details of land use rights are as follows:

	As of November 30, 2010	As of August 31, 2010
Land use rights	\$ 2,189,009	\$ 2,143,868
Less: accumulated amortization	(129,416)	(114,349)

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Land use rights, net	\$ 2,059,593	\$ 2,029,519
	=====	=====

Amortization expenses for the land use rights totaled \$12,619 and \$5,676 for the three months ended November 30, 2010 and 2009, respectively.

NOTE 7. SHORT-TERM LOANS

As at November 30, 2010, the short-term borrowings consisted of four loans. Two loans of \$299,984 (RMB 2,000,000) and \$449,975 (RMB 3,000,000) were borrowed from Changsha Foundation for Education. The two loans were unsecured and bore interest at 5% and 6% per annum, and are repayable on March 17, 2011 and July 15, 2011, respectively.

In addition to the loans mentioned above, the Company entered into two short-term bank loan arrangements. One loan in the amount of \$292,484 (RMB1,950,000) was borrowed from Ningxiang Rural Credit Cooperative Union. The loan bears an interest at 8.50% per annum due on December 13, 2010. This loan was secured by a land use right of the Company with the cost of \$433,254, and was repaid on December 28, 2010. Another loan amounted to \$299,984 (RMB2,000,000) was borrowed from China Construction Bank Shaoshan Branch, bears an interest at 5.84% per annum and due on March 23, 2011 and was secured by a land use right of the Company with cost of \$561,963.

NOTE 8. LONG-TERM LOANS

The details of long-term loans outstanding as at November 30, 2010, which are borrowed as operating funds, are as follows:

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Lender -----	Term ----		Interest rate ----	RM --
	From ----	To --		
LONG-TERM LOAN - CURRENT PORTION				
Ningxiang Rural Credit Cooperative Union	Sep 1, 2009	Aug 21, 2011	8.64%	1,60
Ningxiang Rural Credit Cooperative Union	Nov 25, 2008	Nov 13, 2011	10.80%	1,35
Ningxiang Rural Credit Cooperative Union	Nov 25, 2008	Nov 13, 2011	10.80%	1,40
				-----
				4,35

The details of long-term loans outstanding as at August 31, 2010 are as follows:

Lender -----	Term ----		Interest rate ----	RM --
	From ----	To --		
LONG-TERM LOAN - CURRENT PORTION				
Ningxiang Rural Credit Cooperative Union	Sep 1, 2009	Aug 21, 2011	8.64%	1,60
				-----
				1,60
Long-term loan - Non-Current Portion				
Changsha Foundation for Education	Jul 26, 2010	Oct 25, 2011	8.40%	50
Ningxiang Rural Credit Cooperative Union	Nov 25, 2008	Nov 13, 2011	10.80%	1,35
Ningxiang Rural Credit Cooperative Union	Nov 25, 2008	Nov 13, 2011	10.80%	1,40

The loans borrowed from Ningxiang Rural Credit Cooperative Union were collateralized by the buildings with an aggregate cost of \$1,071,163 and land use rights with an aggregate cost of \$46,768.

The \$73,450 loan was repaid in October 2010. For the three months ended November 30, 2010 and 2009, the Company incurred \$35,766 and \$24,381 interest on the above loans respectively.

NOTE 9. OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consist of the following:

	As of November 31, 2010 -----	As of August 31, 2010 -----
Staff welfare payable	\$ 77,910	\$ 67,713
Deposit as guarantee of performance for campus construction	543,022	531,824
Others	235,029 -----	251,368 -----
 Total	 \$855,961 =====	 \$850,905 =====

NOTE 10. TAXES

CORPORATION INCOME TAX ("CIT") AND BUSINESS TAX

The Company is governed by the Income Tax Law of the People's Republic of China ("PRC") concerning the private-run enterprises, which are generally subject to tax at a statutory rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments. The applicable business tax rate for educational service is currently 5%.

The PRC government also provides various incentives to companies that engage in the development of vocational education. Such incentives include reduced tax rates, tax exemptions and other measures. According to Law of the PRC on Promotion of Privately-run Schools, implemented from September 1, 2003, and the Notice of Tax Policy for Education Activities, issued and became effective on February 5, 2004, some specific enterprises, organizations and schools could enjoy the same tax incentives as the schools run by the government, and could be exempt from business tax and income tax accordingly. As long as the operation of the Company meets the requirements of these regulations, the Company is therefore exempt from business tax and income tax.

No income tax and business tax were provided for the reporting period in accordance with the regulations of the relevant taxing authorities.

The Company was incorporated in the United States and, accordingly, is governed by the income tax laws of the United States. The Company incurred a net operating loss for U.S. income tax purposes. This loss carry forward, which may be available to reduce future periods' taxable income, will expire, if not utilized, in twenty years from the date the loss was incurred. The net operating loss gives rise to a deferred tax asset. However, management believes that the realization of the benefits arising from this loss appear to be uncertain due to



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Company's limited operating history and continuing losses for United States income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at the balance sheet dates against its deferred tax asset. Management reviews this valuation allowance periodically and makes adjustments as warranted. The valuation allowance at November 30, 2010 was the same as August 31, 2010. There was no valuation allowance set up for the three months ended November 30 2009.

### NOTE 11. SHAREHOLDERS' EQUITY

#### (A) COMMON STOCK

HQ Global Education Inc. ("the Company"), formerly Green Star Mining Corp., was incorporated in the State of Delaware on January 22, 2008, with 100,000,000 shares of common stock authorized at par value of US\$0.0001. On January 25, 2008, the Company issued a total of 1,500,000 shares of common stock to Nan E. Weaver for cash in the amount of \$0.01 per share for a total of \$15,000. On July 22, 2008 the Company issued a total of 1,000,000 shares of common stock to individuals for cash in the amount of \$0.025 per share for a total of \$25,000.

On July 22, 2008 the Company issued a total of 1,000,000 shares of common stock to individuals for cash in the amount of \$0.025 per share for a total of \$25,000.

On November 23, 2009, the Company approved a 5-for-1 forward stock split of all issued and outstanding shares of common stock of the Company. On November 25, 2009, the Financial Industry Regulatory Authority ("FINRA") approved the Company's application for forward stock split applicant. As a result, effective on December 7, 2009 and prior to the Share Exchange consummated on February 8, 2010, the Company had a total of 12,500,000 shares of common stock issued and outstanding, and the accompany financial statements have been retroactively restated to reflect the stock split as of November 30, 2009.

On February 8, 2010, the Company entered into a share exchange agreement with Risetime and its sole shareholder, Nicestar International Ltd. ("Nicestar"), a British Virgin Islands company. Pursuant to the Share Exchange Agreement, the Company issued 20,500,000 shares of its common stock, par value \$0.0001 per share, to Nicestar, representing 62.12% of the Company's issued and outstanding common stock, in exchange for all of the outstanding shares of Risetime held by Nicestar. Immediately after this share exchange, the Company had 33,000,000 shares of common stock issued and outstanding.

#### (B) PREFERRED STOCK

On December 31, 2009, the Board of Directors of the Company authorized 40,000,000 shares of preferred stock at par value of \$0.001. As of November 30, 2010 and August 31, 2010, there was no preferred stock issued and outstanding.

#### (C) STATUTORY RESERVE

According to Law of the PRC on Promotion of Privately-run Schools, implemented from September 1, 2003, the Company and the related subsidiaries are required to set aside at least 25% of their after-tax net profits each year, if any, to fund the statutory reserves for the future development of educational activities. The statutory reserves are not distributable in the form of cash dividends to the shareholders.

For the three months ended November 30, 2010 and 2009, the Company has made appropriations in the amount of \$1,381,176 and \$893,542 to this statutory reserve, respectively. As of November 30, 2010 and August 31, 2010, the balances

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of the statutory reserve were \$11,720,727 and \$10,339,551, respectively.

### NOTE 12. SEGMENT INFORMATION

In accordance with ASC 280, "Segment Reporting", establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for details on the Company's business segments.

The Company is mainly engaged in providing vocational education service and vocational skills training service. The Company's chief operating decision maker ("CODM") has been identified as the CEO who reviews the financial information of separate operating segments when making decisions about allocating resources and assessing performance of the group. Based on management's assessment, the Company has determined that it has three operating segments which are Vocational Education, Order-oriented Service, and Campus services. These three operating segments are also identified as reportable segments. The Company adjusted its operating segments and has reclassified results of all periods presented to conform to the revised operating segments disclosures as of November 30, 2010 and 2009.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The CODM evaluates performance based on each reporting segment's revenues, cost of revenues, and gross profit, and selling expenses and G&A expenses are not separated to each segment. The CODM does not review balance sheet information to measure the performance of the reportable segments, nor is this part of the segment information regularly provided to the CODM. Revenues, cost of revenues, gross profit, total capital expenditure and total depreciation and amortization by segment were as follows:

For the three months ended November 30, 2010

	Vocational Education -----	Order-oriented Service -----	Campus Services -----	Unall Amo -----
Net revenues	10,191,687	2,007,021	4,443,050	
Cost of revenues	6,059,548	118,180	3,970,014	
Gross profit	4,132,139	1,888,841	473,036	
Depreciation and amortization	354,133	11	175,131	
Total capital expenditures	124,633	--	26,585	3,7

For the three months ended November 30, 2009

	Vocational Education -----	Order-oriented Service -----	Campus Services -----	Unall Amo -----
Net revenues	7,882,440	915,636	4,211,002	
Cost of revenues	4,256,897	36,222	3,565,373	
Gross profit	3,625,543	879,414	645,629	
Depreciation and amortization	318,284	17	52,060	
Total capital expenditures	1,492,887	--	42,101	4,8

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### NOTE 13. MAINLAND CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain social welfare benefits are provided to qualified employees. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; hence, the Group has no further commitments beyond its monthly contributions. The total contributions for such employee benefits were \$111,263 and \$82,415 for the three months ended November 30, 2010 and 2009, respectively.

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### NOTE 14. SUBSEQUENT EVENT

The Company paid down the short-term portion of the long-term loans in the amount of \$292,484 (RMB \$1,950,000) on December 28, 2010. Concurrently, the Company entered into another short-term loan arrangement in an amount of RMB \$1,550,000 bearing an annual interest rate of 7.47% with a term from December 28, 2010 to December 27, 2011.

On January 5, 2011, the Company entered into a loan agreement with the Chief Executive Officer of the Company, whereby the Company will obtain an interest free loan with a 3 year term for the purpose of business expansion. The total loan amount has not yet been determined as of the date of this report.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements in Management's Discussion and Analysis ("MD&A"), other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in this report or other reports or documents we file with the Securities and Exchange Commission from time to time. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. The condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes thereto included in Form 10-K filed with Securities and Exchange Commission on November 29, 2010.

Management's discussion and analysis is intended to help the reader understand the results of operations and financial condition of the Company. The following discussion should be read in conjunction with the Consolidated Financial Statements and accompanying notes ("Notes") included in this Form 10-Q.

### OVERVIEW

## Edgar Filing: HQ Global Education Inc. - Form 10-Q

HQ Global Education Inc. (the "Company", "we", "us" or "our") is a Delaware corporation incorporated on January 22, 2008 and we are headquartered in Hunan Province, China. Currently, the Company's common stock is trading on the Over-the Counter Bulletin Board under the ticker HQGE.OB.

We are a leading vocational education service provider in China. We offer a wide range of educational programs and services through vocational secondary schools under "Customized Education" mode. Our business mainly focuses on various vocational skills training programs, remote network education, school logistic services, human resource services and development of educational materials. Our students come from 25 provinces and 26 ethnic groups, including graduates from junior high schools, senior high schools and junior colleges, unemployed people and rural labor force.

Since becoming a member of the World Trade Organization, China has become one of the top destinations for foreign direct investments. As the growth of the domestic economy accelerates, demand for skilled workers and technicians has increased dramatically. To facilitate the training and education to meet such a growing demand, the Chinese government has issued several laws and regulations such as "Vocational Education Law of the People's Republic of China", "Regulations of the People's Republic of China on Sino-Foreign Joint Ventures and Cooperation in School Education", "Law of the People's Republic of China on the Promotion of School Education" and "State Guidelines for Medium-to-long-term Education Reform and Development Plan" to enhance the development of the vocational education industry. Under these preferential policies, we have experienced significant and stable growth in our business in recent years. We have established cooperative relationship with 128 enterprises. We supply our trained students to these enterprises and make various training courses available to their employees. These cooperative enterprises are mainly located in the economic centers of China, which cover, Yangtze River Delta, the Pearl River Delta, and many inland provinces in China. HQ Global has become increasingly renowned throughout China for its superior training to meet employer needs and its successful production of outstanding skilled workers who are highly sought after in the market place. As of November 30, 2010, the placement rate remained 100% for the students who graduated from our vocational programs and the supply is still inadequate to meet the demand.

### OPERATIONS

Mr. Guangwen He is the founder and CEO of Oya Education Technology Co., Ltd., Changsha HQ Global Vocational School and Shaoshan HQ Global Technical School. He has been engaged in vocational education and related investments since 1994. In China, "Order-oriented Education", or customized education, was initially created by Mr. Guangwen He and currently is our main operation mode. Order-oriented Education refers to the vocational training that is tailor made to meet the requirements of the prospective employers. Under Order-oriented Education, we combine the cultivation targets with the specific needs of enterprises, curriculums with industry production process, vocational training with position requirements. We create qualified students in compliance with the requirements of the industry. At this stage, our revenue is mostly derived from the students' tuition and is recognized proportionately within the semester.

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We divide our teaching calendar into two semesters per year. The first and second semester for fiscal year 2010 lasted from September 2009 to January 2010 and from March 2010 to August 2010 (including two-month summer break), respectively. Our most recent teaching semester is from September 2010 to January 2011. During this semester, we offer approximately 60 programs under 17 categories to 37,408 students.

During the winter and summer breaks, off-campus internships are provided to

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students. Our teachers work as the team leaders for these students who are sent to different enterprises in groups. Such field practice help students understand the business, the production process, management model and position requirements. As a result, students are prepared for their position without further training once they are placed with the enterprise clients.

We receive commissions from the enterprise clients for placing intern students with them. The amount of the commission is based on the number of students an enterprise client receives. We also receive management fees from the intern students at a monthly fixed rate based on the duration of their internship. Such revenue is recognized upon the completion of the internship arrangement. Upon graduation, eligible students are usually hired by the same enterprise client with which they interned. In such instances, we will receive placement fees from the students and service fees from enterprise clients. Such revenue is recognized upon the completion of all the services related to the job placement.

"Order-oriented Education" reflects the resource sharing between schools and enterprises. It benefits our students in their job hunting endeavors after graduation. As a consequence, student recruitment witnessed a significant expansion in recent years for our ten (10) schools that are located in Shaoshan, Changsha and Shaoyang of Hunan Province, and in Lushan, Shimian, Tianquan and Yingjing of Sichuan Province, and in Tianzhen of Shanxi Province, respectively. To carry out the customized training program, we established cooperative relationships with 128 enterprises as of November 30, 2010, including Fuji Xerox Technology (Shenzhen) Co., Ltd., Flextronics (Zhuhai) Co., Ltd., Dongguan Master Electronics Co., Ltd., ASUSTeK Computer (Shenzhen) Inc., Shanghai Inventec Co., Ltd., among many others.

### PROSPECT

Under economic globalization, enterprises in China are expanding faster than ever and this has resulted in a serious shortage of labor force. According to the Secondary Vocational Education Innovation and Development Plan (Year 2010-2012) issued on November 27, 2010 by the Ministry of Education, in the coming three years, about 20 million skilled workers will be trained and they will become driving force for social and economic development. A study conducted by National Institute for Educational Research showed that the shortage of technical talents will range from 17.46 million to 26.65 million by the end of 2010. This provides a huge expansion space for the vocational education in the mainland of China and provides desirable opportunities for the development of our business.

To achieve stable, sustainable and fast development, HQ Global has formed ten business divisions to integrate market educational resources. Each department has an experienced manager responsible for its operation and will complete its integration in the fiscal year 2011. We will start to assess the performance of these ten business divisions in the fiscal year 2011 and expect to see their great vitality in the reports for the fiscal year 2011. These business divisions are as follows:

1. SECONDARY VOCATIONAL EDUCATION DIVISION. Under the customized education mode, we expect to build new teaching facilities in our existing schools so as to expand the capacity of student enrollment. Meanwhile, we are expecting to add another ten (10) vocational or technical schools in the coming five years which will be potentially located in provinces such as Hubei, Hebei, Xinjiang and Hunan, in addition to the ten (10) schools we currently operate.
2. REMOTE NETWORK EDUCATION DIVISION. We plan to integrate high quality teaching resources to provide online educational training programs for employees of the enterprises that have cooperative relationship with us.
3. VOCATIONAL CERTIFICATION DIVISION. We expect to offer primary, intermediate

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and senior vocational qualification credentials to students at our existing schools.

4. SHORT-TERM TRAINING DIVISION. We intend to utilize our existing teaching resources including school buildings, facilities and staff to provide foreign language, mandarin and computer training programs for primary and secondary school students during summer and winter vacations.

5. HUMAN RESOURCES DIVISION. We plan to provide labor dispatch services and senior talent recruiting services for enterprises.

6. PRE-SCHOOL EDUCATION DIVISION. Pre-school education refers to childhood education. We are engaged in intellectual and interest development for Children aged 3-5 years old.

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7. CAMPUS SERVICES DIVISION. As a place gathering a large consumer group, each of our schools provides good logistic services (food, drinks and daily necessities) for our teachers and students, which effectively increases our revenue.

8. TEACHING MATERIALS DEVELOPMENT AND MARKETING DIVISION. We organize our excellent teachers and professional technicians from target enterprises to develop useful teaching materials based on specific position requirements. Those materials will be distributed outside schools across China.

9. CONTINUING EDUCATION DIVISION. We are rendering a new education program named 2+2 Model. Under this program, students will take 2-year vocational high school education and 2-year junior college education. Upon graduation, they will obtain technical secondary school degree and junior college degree to enhance their qualities and value.

10. ORDER-ORIENTED EDUCATION DIVISION. We will strive to stabilize our relationships with the existing 128 cooperative enterprises and establish cooperation with more enterprises, so that we can place more qualified skilled workers at those enterprises and arrange more on-field, off-campus internship opportunities for students.

### CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and judgments that affect our reported assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis and use them on historical experience and various other assumptions that are believed to be reasonable under the circumstances as the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates because of different assumptions or conditions.

We believe the following critical accounting policies affect our significant estimates and judgments used in the preparation of our consolidated financial statements. These policies should be read in conjunction with Note 2 of the Notes to consolidated financial statements.

### PRINCIPLES OF CONSOLIDATION

The accompanying unaudited condensed consolidated financial statements have been

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prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The unaudited condensed consolidated financial statements include the financial statements of the Company, Risetime, GEI, Xiangtan Nicestar, Oya, as well as Oya's subsidiaries and VIEs. All significant inter-company balances and transactions are eliminated in consolidation.

At November 30, 2010, we determined that we are the primary beneficiary of Oya based on the ongoing reassessments, taking into consideration of our economic control over Oya; the existing contractual relationship in which all of Oya's activities either involve or are conducted on our behalf, and we have the obligations to absorb Oya's expected returns and losses.

### USE OF ESTIMATES

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates are used for, but not limited to, the selection of the useful lives and residual values of property and equipment and intangible assets, provision for doubtful accounts, provision necessary for contingent liabilities, fair values, revenue recognition, and other similar charges. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent. Actual results could differ from these estimates.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the provisions of Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

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Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2 - Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3 - Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The Company's unaudited condensed consolidated financial instruments include cash and cash equivalents, accounts receivable, advances to vendors, other receivables, accounts payable, accrued expenses, taxes payable, other payables and accrued liabilities, unearned revenues, notes payable and loans payable. Management has estimated that the fair value of these financial instruments approximate their carrying amounts due to the short-term nature. The fair value of long-term loans also approximate their recorded value because the interest rates charged under the loan terms are not substantially different than current interest rates.

### REVENUE RECOGNITION

The Company recognizes revenues in accordance with ASC 605 "Revenue

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Recognition". The Company recognizes revenue when the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the services have been rendered, (iii) the fees are fixed or determinable and (iv) collection of the resulting receivable is reasonably assured.

- (a) Tuition revenue received from educational programs and services is recognized proportionately according to the progress the student completes regarding educational programs in the school. Tuition paid in advance is recorded as unearned revenues.
- (b) We provide off-campus internship arrangements for students and collect service charges at fixed amount from both recruiters and students. Revenue is recognized upon completion of the internship program.
- (c) We provide other services, mainly logistic services, for our students and the revenue from such services is recognized upon completion of the service.

### ACCOUNTS RECEIVABLE

Accounts receivable consists of balances receivable for the charges of education services provided and for tuition revenues. Accounts receivable are recorded at net realizable value consisting of the carrying amount less an allowance for uncollectible amounts.

According to the Company's policy, accounts receivable over 90 days are considered overdue. The Company does periodical reviews as to whether the carrying values of accounts have become impaired. The assets are considered to be impaired if the collectability of the balances become doubtful, accordingly, the management estimates the valuation allowance for anticipated uncollectible receivable balances. When facts subsequently become available to indicate that the allowance provided requires an adjustment, then the adjustment will be recorded as a change in allowance for doubtful accounts. If we were to apply a hypothetical increase of 1% in estimating allowance for doubtful accounts for the period and year ended November 30, 2010 and August 31, 2010, respectively, the provision for bad debt expenses would increase by \$105,243 and \$90,238, respectively.

### IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company is required to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

The Company tests long-lived assets, including property, plant and equipment and other assets, for recoverability when events or circumstances indicate that the net carrying amount is greater than its fair value. Assets are grouped and evaluated at the lowest level for their identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of potential impairment and then compares the carrying amount of the asset to the future estimated cash flows expected to result from the use of the asset. If the carrying amount of the asset exceeds estimated expected undiscounted future cash flows, the Company measures the amount of impairment by comparing the carrying amount of the asset to its fair value. The estimation of fair value is generally determined by using the asset's expected future discounted cash flows or market

value. The Company estimates fair value of the assets based on certain



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assumptions such as budgets, internal projections, and other available information as considered necessary. There was no impairment of long-lived assets as of November 30, 2010 and August 31, 2010.

### INTANGIBLE ASSETS

Intangible assets are accounted for in accordance with the provisions of ASC 350, "Goodwill and Other Intangible Assets". Under ASC 350, other intangible assets deemed to have indefinite useful lives are not amortized. Indefinite-lived intangible assets are assessed for impairment at least annually based on comparisons of their respective fair values to their carrying values. Intangible assets with a finite useful life are amortized over their useful lives. Intangible assets consist of land use rights which are granted by PRC government for a term of 50 years. The Company does not have any indefinite-lived intangible assets as of November 30, 2010 and August 31, 2010.

### INCOME TAX

The Company did not generate any taxable income outside of the PRC for the three months ended November 30, 2010 and 2009 and the Company is governed by the Income Tax Law of the PRC. The Company accounts for income taxes using an asset and liability approach which allows for the recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for 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. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. In the event the PRC government determines that the Company is no longer exempt from income taxes, the Company would be subject to a statutory tax rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments.

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED NOVEMBER 30, 2010 AND 2009

Our chief operating decision maker ("CODM") is our Chief Executive Officer who reviews the financial information of separate operating segments when making decisions about allocating resources and assessing performance of the group. Based on management's assessment, we have determined that we have three operating segments which are Vocational Education, Order-oriented Service, and Campus services. These three operating segments are also identified as reportable segments.

- \* Vocational education services are our main business currently and we provide a wide range of programs through our vocational secondary schools. Fee based revenues from vocational education services primarily consist of student tuition and fees derived from the programs we offer and collected from students based on the fee standards that filed and approved by the related local authorities;
- \* Revenue generated from Order-oriented services mainly consist of fees we collected from students and enterprises sponsors related to campus internship arrangement and job placement services;
- \* Revenue generated from Campus services primarily consist of canteen services and grocery sales provided to our students.

We adjusted our operating segments and have reclassified results of all periods presented to conform to the revised operating segments disclosures for the three months ended November 30, 2010 and 2009.

Results of operations are a general reflection of our experience in providing customized educational programs, the operation time of our schools, the

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reputation of our schools, the scalability of our schools and the total number of students, all of which demonstrated a growth trend in the past years and are expected to expand in the future. Our expansion can be reflected specifically in the increase of our student enrollment, the development of new customized educational programs, the cooperation with more target employers, the education appropriations from local government for running new schools. It also will be reflected in our return from the investment on new business in the future. The number of students increased from 32,238 in the first semester of fiscal year 2010 to 37,408 in the first semester of fiscal year 2011.

The following table summarizes our unaudited consolidated operating results for the three months ended November 30, 2010 and 2009, respectively:

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	For the three months ended November 30,		Comparison	
	2010	2009	Amount	Perce
	----- US\$	----- US\$	----- US\$	----- %
Revenues				
Fee based	12,198,708	8,798,076	3,400,632	38.6
Service based	4,443,050	4,211,002	232,048	5.5
	-----	-----	-----	-----
	16,641,758	13,009,078	3,632,680	27.9
	-----	-----	-----	-----
Cost of revenues				
Fee based	(6,177,728)	(4,293,119)	(1,884,609)	43.9
Service based	(3,970,014)	(3,565,373)	(404,641)	11.3
	-----	-----	-----	-----
	(10,147,742)	(7,858,492)	(2,289,250)	29.1
	-----	-----	-----	-----
Gross profit	6,494,016	5,150,586	1,343,430	26.0
Selling expenses	(169,225)	(136,094)	(33,131)	24.3
G&A expenses	(780,402)	(451,564)	(328,838)	72.8
	-----	-----	-----	-----
Income from operations	5,544,389	4,562,928	981,461	21.5
Other expenses	(59,609)	(988,758)	929,149	(93.9)
Income taxes	--	--	--	--
	-----	-----	-----	-----
Net income	5,484,780	3,574,170	1,910,610	53.4
	=====	=====	=====	=====

In line with the business expansion, both revenue and profit have demonstrated significant growth in these periods. For the three months ended November 30, 2010, we achieved total revenue of \$16,641,758, representing an increase of \$3,632,680 or 27.92% as compared to \$13,009,078 for the three months ended November 30, 2009. The significant increase in revenue was mainly attributable to the expansion of our operation. Our net income for the three months ended November 30, 2010 was \$5,484,780, representing an increase of \$1,910,610 or 53.46% as compared to \$3,574,170 for the three months ended November 30, 2009.

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### REVENUES, COST OF REVENUES AND GROSS PROFIT BY SEGMENT

Revenues for the three months ended November 30, 2010 and 2009

	Revenues		Co
	2010	For the three months ended 2009	November 30 Amount
Vocational Education - fee based	\$10,191,687	\$ 7,882,440	\$ 2,309,247
Order-oriented service - fee based	2,007,021	915,636	1,091,385
Campus Services - service based	4,443,050	4,211,002	232,048
<b>Total</b>	<b>\$16,641,758</b>	<b>\$13,009,078</b>	<b>\$ 3,632,680</b>

Cost of revenues for the three months ended November 30, 2010 and 2009

	Cost of Revenues		C
	2010	For the three months ended 2009	November 30 Amount
Vocational Education - fee based	\$ 6,059,548	\$ 4,256,897	\$ 1,802,651
Order-oriented service - fee based	118,180	36,222	81,958
Campus Services - service based	3,970,014	3,565,373	404,641
<b>Total</b>	<b>\$10,147,742</b>	<b>\$ 7,858,492</b>	<b>\$ 2,289,250</b>

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Gross profit for the three months ended November 30, 2010 and 2009

	Gross profit		Co
	2010	For the three months ended 2009	November 30 Amount
Vocational Education - fee based	\$ 4,132,139	\$ 3,625,543	\$ 506,596
Order-oriented service - fee based	1,888,841	879,414	1,009,427
Campus Services - service based	473,036	645,629	(172,593)
<b>Total</b>	<b>\$ 6,494,016</b>	<b>\$ 5,150,586</b>	<b>\$ 1,343,430</b>

(1) Revenues from vocational education services primarily consist of student tuition and fees derived from the programs we offer and collected from

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students based on the fee standards that filed and approved by the related local authorities. For the three months ended November 30, 2010, total tuition and miscellaneous fees had an increase of 29% as compared to tuition and miscellaneous fees for the three months ended November 30, 2009. The increase was the result of increase in the student enrollments and the expansion of our business.

- \* Our student enrollments increased to 37,408 as of November 30, 2010 as compared to 32,238 as of November 30, 2009, representing an increase of 5,170 or 16%. Our order-oriented education mode, excellent job placement rate and great reputation have attracted greater number of students to study in our schools.
- \* In July 2010, Tianzhen Huangqiu Technical Secondary School invested by one of our VIEs - Hunan Oya Education Technology Co., Ltd (Oya) was founded at Tianzhen County, Datong City, Shanxi Province. On September 1, 2010, Tianzhen Huangqiu Technical Secondary School commenced operation and it contributed \$432,513 to our total revenue for the three months ended November 30, 2010.
- \* Our tuition standards for the programs - Application of Electronic Technology, Mold Design and Manufacture, Computer and Computer Application, Application of Numerical Control Technology, Computer Software Engineering and Tourism and Hotel Management of the schools in Hunan province for the first semester of fiscal year 2011 increased 3%-35% compared with the first semester of prior period. The increase in tuition standards also led to the increase in revenue.

Cost of vocational education services mainly includes salary and welfare of teachers, depreciation of teaching facilities and educational equipment, maintenance, and other expenses. For the three months ended November 30, 2010 we incurred total cost of \$6,059,548, representing an increase of 42% as compared to \$4,256,897 for the three months ended November 30, 2009. The increase was mainly attributable to the following:

- \* Increase in faculty and staff members in schools. The commencement of operation of the new school and the increase in student enrollment led to an increase in faculty and staff members. Besides, the Company increased the pay rates for teachers to improve their income levels. Therefore, salary and welfare for the first quarter of fiscal year 2011 increased 20.43% as compared with the amount for the same period of prior year.
  - \* Increase in cost of school-running cooperation. The Company has put more efforts in expanding the scale of continuing education in fiscal year 2011. For the three months ended November 30, 2010, the total number of students enrolled in "2+2" education program was 3,756, representing an increase of 112.56% when compared with the number of students for the same period of last year. This led to an increase of \$475,972 or 128.24% in cost of school-running cooperation as compared with the three months ended November 30, 2010.
  - \* Increase in depreciation expenses. With the expansion of business and acquisition of assets including construction of buildings and acquisition of teaching facilities, related depreciation expenses increased accordingly. Depreciation expenses for the first quarter of fiscal year 2011 increased \$180,973 or 51.48% when compared with depreciation expenses for the first quarter of fiscal year 2010.
- (2) Order-oriented services refer to off-campus internship arrangement and job placement service provided to our students. Order-oriented service revenue for the three months ended November 30, 2010 was \$2,007,021, representing an increase of \$1,091,385 or 119% when compared to \$915,636 for the three months ended November 30, 2009. The significant increase in our order-oriented education revenue is mainly attributable to the increase of fee rates we charged to our students and enterprises. The fixed management

fees we charged to our student per month increased approximately 50%, and our commission fees charged to enterprise sponsors increased about 260% for the first quarter of fiscal 2011 compared with the same period of prior year.

Cost of Order-oriented services mainly includes salary of teachers and staff, travel expenses of students from our schools to the enterprise clients, and management's travel and meeting expenses incurred with enterprise clients. The increase in fee standards and the stable cost per student led to an increase in gross margin of this service category for the three months ended November 30, 2010 when compared with the gross margin of such services for the same period of last year.

- (3) Campus services primarily consist of canteen services and grocery sales. Due to the increase in the student enrollment, revenues from our campus services increased by \$232,048 to \$4,443,050, an increase of 6%, for the three months ended November 30, 2010 as compared to revenues of \$4,211,002 for the three months ended November 30, 2009. Our management believes that going forward, in addition to the student enrollment factor, revenues from Campus services will also increase along with the increase in the service categories we provide to students.

Cost of campus services primarily consist of staff salary, depreciation of property and equipment used in providing campus services, and cost of food. The prices of most categories of food and other goods rose significantly in fiscal year 2011. As a result, the gross profit margin of such service this quarter decreased 27% as compared to the same period of prior year.

#### OPERATING EXPENSES

We do not allocate selling, general and administrative expenses incurred at corporate level to individual reporting segments as we believe our corporate department provides necessary marketing and administrative supporting function that benefits our entire operations taken as a whole.

#### SELLING EXPENSES

Our selling expenses primarily consist of expenses relating to advertising, salary and staff welfare, office expenses, travel expenses and entertainment for our marketing personnel. Our selling expenses increased by \$33,131, from \$136,094 for the three months ended November 30, 2009 to \$169,225 for the three months ended November 30, 2010, an increase of 24.34%. The increase was primarily attributable to increase in staff compensation, travel and marketing expenses as a result of our business expansion.

#### GENERAL AND ADMINISTRATIVE EXPENSES

Our general and administrative expenses primarily consist of (i) compensation and benefits of management team, administrative staff (ii) rental expenses for office space leased for administrative uses, (iii) office administration, human resources management and professional service fees and (iv) depreciation and amortization of property and equipment, including purchased software, used in our general and administrative activities. Our general and administrative expenses increased by \$328,838 from \$451,564 for the three months ended November 30, 2009 to \$780,402 for the three months ended November 30, 2010, representing an increase of 72.82%. The increase was mainly attributable to the following:

- (1) Operation of new schools and increase in the student enrollment. Tianzhen HQ Vocational School commenced operations in September 2010 and we employed

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more management personnel for this new school. Meanwhile the increased student enrollment in other schools demanded additional management personnel. This led to an increase of \$46,089 in salaries and welfare, representing an increase rate of 25%.

- (2) The cost of being a public company. We went public in the first quarter of 2010. To build a strong management team, we hired more management staff which resulted in the increase of \$97,529 in salaries, travel expenses and other related expenses.
- (3) The professional service fees mainly including legal fees, audit fees, secretary service fees and consulting fee for financing service incurred in the three months ended November 30, 2010 was \$177,748 while there is little consulting fee incurred in the same period of prior year, which led to an increase of 30.67% of general and administrative expenses when compared with the same period of prior year.

### OTHER EXPENSES

Other expenses primarily consist of donation to Changsha Foundation for Education, fine for termination of office rental agreements and loss on disposal of property and equipment. Other expenses decreased \$929,149 from \$988,758 for

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the three months ended November 30, 2009 to \$59,609 for the three months ended November 30, 2010. This decrease was mainly due to the disposition of aged equipment during the first fiscal quarter ended November 30, 2009, while there was no disposal of property and equipment during the three months ended November 30, 2010.

### LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity have been cash generated from our operating activities and short-term financing from banks in China.

As at November 30, 2010, our short-term borrowings consisted of four loans: (1) Two loans of \$299,984 (RMB 2,000,000) and \$449,975 (RMB 3,000,000) from Changsha Foundation for Education, are unsecured and bore interest at 5% and 6% per annum, and are repayable on March 17, 2011 and July 15, 2011, respectively. (2) In addition to the loans mentioned above, we entered into two short-term bank loan arrangements. One loan in the amount of \$292,484 (RMB1,950,000) was borrowed from Ningxiang Rural Credit Cooperative Union. The loan bears an interest at 8.50% per annum and due on December 13, 2010 and was secured by a land use right of the Company with the cost of \$433,254. Another loan amounted to \$299,984 (RMB2,000,000) was borrowed from China Construction Bank Shaoshan Branch, bears an interest at 5.84% per annum and due on March 23, 2011 and was secured by a land use right of the Company with cost of \$561,963.

As at November 30, 2010, our long-term loans consisted of three loans from Ningxiang Rural Credit Cooperative Union with total amount of \$652,465. The loans were collateralized by the buildings with an aggregate cost of \$1,071,163 and land use rights with an aggregate cost of \$46,768.

As of November 30, 2010, we have a loan payable in the amount of US\$310,000 to Mr. He Guangwen, majority shareholder of the Company. The loan is unsecured, bears no interest, with term of two years and is payable on February 28, 2012.

As of November 30, 2010, our working capital was \$47,417,189 and our cash balance was \$9,798,855. We currently anticipate that we will be able to meet both our short-term cash needs, as well as our need to fund operations and meet our obligations beyond the next twelve months with cash generated by operations, existing cash balances and, if necessary, borrowings under our credit facility.

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### OPERATING ACTIVITIES

For the three months ended November 30, 2010, the increase in net cash flows provided by operating activities was primarily attributable to an increase of \$1,910,610 in our net income for the three months ended November 30, 2010 as compared to net income for the same period in 2009. With the increase in student enrollment and business expansion, we benefit from a steady and consistent flow of revenues from different operating divisions, and with the effective cost control, a steady increase in cash flows provided by operating activities is expected in future.

### INVESTING ACTIVITIES

For the three months ended November 30, 2010, net cash flows used in investing activities were \$3,861,282, representing a decrease of \$2,564,508 as compared with the cash flows used in investing activities of \$6,425,790 for the three months ended November 30, 2009. Cash used in investing activities is mainly for the construction of the buildings, the acquisition of school facilities and land use rights for Shaoshan Vocational Secondary School, Shaoyang Industrial Vocational Technical School, Sichuan Tianquan Vocational School and Sichuan Shimian Vocational School. The decrease in net cash flows used in investing activities was mainly due to the existing construction projects other than Shaoshan Vocational Secondary School were mostly paid for and new construction projects have not started as of November 30, 2010.

### FINANCING ACTIVITIES

For the three months ended November 30, 2010, net cash flows used in financing activities were \$28,089, representing a decrease of \$848,292 in net cash provided by financing activities as compared with net cash provided by financing activities of \$820,203 for the three months ended November 30, 2009. There was collection of loans from related party in the amount of \$878,789 during the

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three months ended November 30, 2009, but during the three months ended November 30, 2010 there was only payment of one long-term loan in the amount of \$74,755 and an additional loans from shareholder of \$46,666. This resulted in the lower net cash flows provided by financing activities for the first fiscal quarter ended November 30, 2010.

### FOREIGN CURRENCY TRANSLATION

The Company's financial information is presented in US dollars. The functional currency of the Company is Renminbi ("RMB"), the currency of the PRC. Transactions at the Company which are denominated in currencies other than RMB are translated into RMB at the exchange rate quoted by the People's Bank of China prevailing at the dates of the transactions. Exchange gains and losses resulting from transactions denominated in a currency other than that RMB are included in the unaudited consolidated statements of operations as exchange gains, if any. The period end exchange rate as of November 30, 2010 was 6.6670, which decreased significantly compared with the exchange rate 6.8074 as of August 31, 2010. The average exchange rate for the three months ended November 30, 2010 of 6.6885, decreased significantly as compared with the exchange rate of 6.8276 for the same period of prior year.

### TAXATION

The PRC government provides various incentives to companies that engage in the development of vocational education. Such incentives include reduced tax rates, tax exemptions and other measures. According to Law of the People's Republic of China on Promotion of Privately-run Schools, implemented from September 1, 2003,

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and the Notice of Tax Policy for Education Activities, issued and effective on February 5, 2004, some specific enterprises, organizations and schools enjoy the same tax incentives as the schools run by the government, and could be exempt from business tax and income tax accordingly. As the operation of the Company meets the requirements of the aforementioned regulations, the Company is exempt from business tax and income tax.

### RECENT ACCOUNTING PRONOUNCEMENTS

In December, 2009, FASB issued ASU No. 2009-17, Improvement to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standard Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No.167, Amendments to FASB Interpretation No. 46 (R). The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The Company is required to adopt this guidance for the year ending August 31, 2011, and does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In May 2010, ASC Update No. 2010-19 Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates (SEC Update). In this update the staff clarifies that upon application of highly inflationary accounting registrants must follow the accounting outlined in paragraph ASC 830-10-45-11, which states that "the financial statements of a foreign entity in a highly inflationary economy shall be remeasured as if the functional currency were the reporting currency. Specifically, the disclosure requirements at year end and interim period when the reported balances in an entity's financial statements that are differ from their underlying U.S. Dollar denominated values. This update is effective on March 18, 2010, when announced by the Staff of the SEC. This update did not have a material effect on the Company's unaudited condensed consolidated financial statements.

In March 2010, ASC Update No. 2010-13, Compensation--Stock Compensation (Topic 718): "Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades--a consensus of the FASB Emerging Issues Task Force." This is an update regarding the effect of denominating the exercise price of a share-based payment awards in the currency of the market in which the underlying equity securities trades and that currency is different from (1) entity's functional currency, (2) functional currency of the foreign operation for which the employee provides services, and (3) payroll currency of the employee. The update clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should be considered an equity award assuming all other criteria for equity classification are met. The update will be effective for interim and annual periods beginning on or after December 15, 2010, and will be applied

prospectively. Affected entities will be required to record a cumulative catch-up adjustment for all awards outstanding as of the beginning of the annual period in which the guidance is adopted. This update is not expected to have a



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material impact on the Company's unaudited condensed consolidated financial statements.

In January 2010, FASB amended ASC 820 Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has determined the adoption of this rule does not have a material impact on its financial statements.

### OFF BALANCE SHEET ARRANGEMENTS

None.

### SEASONALITY AND TRENDS

Our net revenues and operating results normally fluctuate as a result of seasonal variations in our business, principally due to a flexible educational calendar year. Our revenue historically fluctuated quarterly and has generally been the highest in the first quarter of our fiscal year due to educational calendar year-start spending trends in our major markets. Furthermore, holidays, especially the Chinese New Year, have generally delayed the performance of the revenue in the relevant quarters ended February and August. Our expenses, however, do not vary significantly over the course of the year with changes in our student population and net revenues. We expect quarterly fluctuations in operating results to continue as a result of our flexible educational calendar year and arrangement of students' vacation.

### CONTINGENCIES

The Company is not currently a party to any legal proceedings, investigations or claim which in the opinion of our management is likely to have a material adverse effect on the business financial condition or result of operations. The Company has not recorded any legal contingencies as of November 30, 2010.

### SUBSEQUENT EVENT

The Company paid down the short-term portion of the long term loans in the amount of \$292,484 (RMB \$1,950,000) on December 28, 2010. Concurrently, the Company entered into another short-term loan arrangement in an amount of RMB \$1,550,000 bearing an annual interest rate of 7.47% with a term from December 28, 2010 to December 27, 2011.

On January 5, 2011, the Company entered into a loan agreement with the Chief Executive Officer of the Company, whereby the Company will obtain an interest free loan with a 3 year term for the purpose of business expansion. The total loan amount has not yet been determined as of the date of this report.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act

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and are not required to provide the information required under this item.

### ITEM 4. CONTROLS AND PROCEDURES

#### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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As of November 30, 2010, the end of the fiscal quarter covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, on the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective at the reasonable assurance level to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company completed a reverse acquisition transaction on February 8, 2010, and the management of the Company is currently in the process of finalizing its procedures for internal controls over financial reporting. In addition, no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) during the quarter ended November 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We know of no pending legal proceedings to which we are a party which are material or potentially material, either individually or in the aggregate. We are from time to time, during the normal course of our business operations, subject to various litigation claims and legal disputes. We do not believe that the ultimate disposition of any of these matters will have a material adverse effect on our financial position, results of operations or liquidity.

### ITEM 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

The following exhibits are filed herewith:

Exhibit No. -----	Description -----
31.1	Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

\* Filed herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

January 14, 2011

HQ Global Education Inc.

By: /s/ Guangwen He

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Guangwen He  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Yunjie Fang

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Yunjie Fang  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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