

HQ Global Education Inc.
Form 10-Q
July 15, 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 May 31, 2011

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 (§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 | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

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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 July 14, 2011, 33,000,000 shares of the Company's common stock, \$0.0001 par value, were issued and outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. Unaudited Financial Statements

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

| | May 31, 2011 | August 31, 2010 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$10,607,514 | \$5,225,764 |
| Accounts receivable | 11,310,848 | 9,023,824 |
| Other receivables | 188,569 | 40,972 |
| Inventory | 431,679 | 674,200 |
| Advances to vendors | 5,574,896 | 552,344 |
| Total current assets | 28,113,506 | 15,517,104 |
| PROPERTY AND EQUIPMENT, NET | 33,804,257 | 29,009,794 |
| INTANGIBLE ASSETS, NET | 7,120,450 | 2,029,519 |
| TOTAL ASSETS | \$69,038,213 | \$46,556,417 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Short-term loans | \$702,280 | \$1,314,744 |
| Long-term loans - current portion | 671,411 | 235,038 |
| Accounts payable | 1,034,147 | 2,278,346 |
| Payroll tax payable | 3,969 | 3,232 |
| Payroll payable | 720,414 | 341,098 |
| Unearned revenues | 3,076,602 | - |
| Due to stockholder | 523,062 | - |
| Other payables and accrued liabilities | 936,183 | 850,905 |
| Total current liabilities | 7,668,068 | 5,023,363 |
| Long-term loans, less current portion | - | 477,421 |
| Due to stockholder, net of current portion | 3,086,944 | 310,000 |
| Other long-term payables | 100,171 | 96,757 |
| TOTAL LIABILITIES | 10,855,183 | 5,907,541 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' 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 | 3,300 | 3,300 |
| Additional paid-in capital | 1,226,674 | 1,226,674 |

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| | | |
|--|--------------|--------------|
| Accumulated other comprehensive income | 4,205,379 | 1,785,928 |
| Statutory reserve | 14,128,209 | 10,339,551 |
| Retained earnings | 38,619,468 | 27,293,423 |
| Total stockholders' equity | 58,183,030 | 40,648,876 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$69,038,213 | \$46,556,417 |

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

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

| | For the three months ended May 31, | | For the nine months ended May 31, | |
|---|---------------------------------------|--------------|--------------------------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | | | | |
| -Fee based | \$10,001,591 | \$12,020,167 | \$32,430,966 | \$26,151,610 |
| -Service based | 6,864,329 | 5,215,749 | 13,571,232 | 10,958,480 |
| | 16,865,920 | 17,235,916 | 46,002,198 | 37,110,090 |
| Cost of revenue | | | | |
| -Fee based | (5,217,384) | (6,560,027) | (16,442,695) | (13,334,478) |
| -Service based | (5,631,626) | (4,242,786) | (11,453,793) | (8,983,353) |
| | (10,849,010) | (10,802,813) | (27,896,488) | (22,317,831) |
| Gross profit | 6,016,910 | 6,433,103 | 18,105,710 | 14,792,259 |
| Selling expenses | (259,593) | (268,893) | (599,303) | (512,651) |
| General and administrative expenses | (741,108) | (567,662) | (2,275,550) | (1,495,898) |
| Income from operations | 5,016,209 | 5,596,548 | 15,230,857 | 12,783,710 |
| Other expenses | | | | |
| Interest expenses, net | (21,631) | (38,711) | (83,276) | (83,838) |
| Other expenses | (3,512) | (8,877) | (32,878) | (978,827) |
| Total other expenses | (25,143) | (47,588) | (116,154) | (1,062,665) |
| Income before income taxes | 4,991,066 | 5,548,960 | 15,114,703 | 11,721,045 |
| Provision for income taxes | - | - | - | - |
| Net income | 4,991,066 | 5,548,960 | 15,114,703 | 11,721,045 |
| Other comprehensive income | | | | |
| Foreign currency translation adjustments | 813,369 | (10,268) | 2,419,451 | 9,359 |
| Comprehensive Income | \$5,804,435 | \$5,538,692 | \$17,534,154 | \$11,730,404 |
| Basic and diluted income per common share | \$0.15 | \$0.17 | \$0.46 | \$0.46 |
| Basic and diluted weighted average common shares outstanding | 33,000,000 | 33,000,000 | 33,000,000 | 25,673,993 |

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

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

For the nine months ended
May 31,
2011 2010

| | | |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 15,114,703 | \$ 11,721,045 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,914,997 | 1,409,368 |
| Loss on disposal of property & equipment | - | 969,369 |
| Changes in assets and liabilities | | |
| (Increase) decrease in - | | |
| Accounts receivable | (1,793,442) | (5,313,198) |
| Other receivables | (113,109) | (372,119) |
| Inventory | 271,257 | 1,173,255 |
| Increase (decrease) in - | | |
| Accounts payable | (1,332,941) | 314,443 |
| Payroll Payable | 354,890 | 513,828 |
| Payroll Taxes payable | 561 | 31,185 |
| Unearned revenues | 3,016,006 | 3,229,791 |
| Other payables and accrued liabilities | 249,451 | 750,937 |
| Net cash provided by operating activities | 17,682,373 | 14,427,904 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of intangible assets | (4,952,859) | (265,109) |
| Advance to vendors for acquisition of property and equipment | (4,896,174) | - |
| Acquisition of property and equipment | (5,109,996) | (7,639,799) |
| Net cash used in investing activities | (14,959,029) | (7,904,908) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from short-term loan | 234,526 | 578,508 |
| Repayments on short-term loan | (900,278) | - |
| Proceeds from long-term loan | - | 234,333 |
| Repayments on long-term loan | (75,655) | (556,540) |
| Proceeds from stockholders' loan | 3,026,143 | 310,000 |
| Collection of loans to related party | - | 2,448,629 |
| Net cash provided by financing activities | 2,284,736 | 3,014,930 |
| EFFECT OF EXCHANGE RATE CHANGE ON CASH | 373,670 | (24) |
| NET INCREASE IN CASH | 5,381,750 | 9,537,902 |
| CASH, BEGINNING OF PERIOD | 5,225,764 | 3,848,040 |
| CASH, END OF PERIOD | \$ 10,607,514 | \$ 13,385,942 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | \$ 89,639 | \$ 93,735 |

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

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 of Risetime and GEI’s operations are conducted in the PRC through Xiangtan Nicestar, and through contractual arrangements with Xiangtan Nicestar’s consolidated affiliated entities in the PRC, 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 in February 2010, 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 since there was a change of control. Accordingly, Risetime and its subsidiaries are treated as the continuing entity for accounting purposes.

In March 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 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 condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("U.S. GAAP") 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 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 and nine months ended May 31, 2011 are not necessarily indicative of the results that may be expected for the full year.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The condensed consolidated financial statements include the accounts 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 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

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 condensed consolidated financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the condensed 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 condensed consolidated financial statements are reasonable and prudent. Actual results could differ from these estimates.

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 uncollectable amounts. As of May 31, 2011 and August 31, 2010, total accounts receivable were \$11,310,848 and \$9,023,824 respectively, of which, \$9,641,523 and \$6,946,895, respectively represented tuition due from governmental organizations and associations under the impoverished student aid programs for the periods ended May 31, 2011 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 uncollectable. The assets are considered to be doubtful if the collectability of the balances become doubtful, accordingly, management estimates an allowance for anticipated uncollectable 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 May 31, 2011 and August 31, 2010, the allowance for doubtful accounts was \$-0-.

Advances to vendors

Advances to vendors consisted of balances paid for the construction of buildings and facilities, acquisition of property, equipment and materials. Advances to vendors are reviewed at least annually by comparing with their respective fair values to determine whether their carrying value has become impaired. The Company has determined that no impairment reserve is necessary as of May 31, 2011 and August 31, 2010.

Intangible assets

Intangible assets are accounted for in accordance with the provisions of Accounting Standards Codification (“ASC”) 350, "Intangibles-Goodwill and Other". 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 life.

Revenue recognition

The Company recognizes revenues in accordance with 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 of 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.

Fair value of financial instruments

The Company follows the provisions of 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.

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, accounts receivable, advances to vendors, 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 their 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.

The Company did not have assets and liabilities that are measured at fair value on a recurring basis.

Earnings per share

Basic earnings per share (EPS) 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 May 31, 2011 and August 31, 2010.

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. 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 stockholders' equity.

| | May 31, 2011 | August 31, 2010 | May 31, 2010 |
|--|--------------|-----------------|--------------|
| Period end exchange rate (RMB: US\$) | 6.4789 | 6.8074 | 6.8279 |
| Average exchange rate for the period (RMB: US\$) | 6.6091 | 6.8178 | 6.8266 |

Note 3. RELATED PARTY TRANSACTIONS

The balance due to stockholder consists of the following:

| | As of May 31, 2011 | As of August 31, 2010 |
|--|-----------------------|--------------------------|
| Loan from Mr. Guangwen He (1) | \$ 3,396,944 | \$ 310,000 |
| Rental and other expenses payable to Mr. Guangwen He (2) | 213,062 | - |
| Total | \$ 3,610,006 | \$ 310,000 |

- (1) Represents loans from Mr. Guangwen He, the Chief Executive Office of the Company, which consist of
- \$310,000 interest free unsecured loan, with a term of two years and is payable on February 28, 2012.
 - \$3,086,944 (RMB 20,000,000) interest free unsecured loan, with a term of three years and is payable on May 25, 2014 pursuant to a loan agreement the Company entered into with Mr. He on January 5, 2011 for the purpose of business expansion.
- (2) The Company rents office facilities from Mr. Guangwen He under a fifteen-year agreement for annual rental of US\$ 77,174.

Note 4. SHORT-TERM LOANS

As of May 31, 2011, the short-term borrowings consisted of two loans. One loan for \$463,042 (RMB 3,000,000) was received from Changsha Foundation for Education. The loan was unsecured and bears interest at 6% per annum, and matures on July 15, 2011. The second loan in the amount of \$239,238 (RMB1,550,000) was borrowed from Ningxiang Rural Credit Cooperative Union. This loan bears interest at 8.96% per annum until maturity on December 28, 2011. This loan is secured by one of the Company's buildings with a cost of \$354,999.

Note 5. LONG-TERM LOANS

The details of long-term loans outstanding as of May 31, 2011 are as follows:

| Lender | Term | | Interest rate | Principal | |
|--|--------------|--------------|---------------|-----------|---------|
| | From | To | | RMB | US\$ |
| Long-term loan - Current Portion | | | | | |
| Ningxiang Rural Credit Cooperative Union | Sep 1, 2009 | Aug 21, 2011 | 8.64 % | 1,600,000 | 246,956 |
| Ningxiang Rural Credit Cooperative Union | Nov 25, 2008 | Nov 13, 2011 | 10.80 % | 1,350,000 | 208,369 |
| Ningxiang Rural Credit Cooperative Union | Nov 25, 2008 | Nov 13, 2011 | 10.80 % | 1,400,000 | 216,086 |
| | | | | 4,350,000 | 671,411 |

The loans borrowed from Ningxiang Rural Credit Cooperative Union were collateralized by buildings with an aggregate cost of \$1,125,476 and land use rights with an aggregate cost of \$49,139.

For the three and nine months ended May 31, 2011 and 2010, the Company incurred \$31,550, \$102,854, \$38,171 and \$91,724 interest expense on the above loans respectively.

Note 6. 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. 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. 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 exempt from business tax and income tax. No income tax and business tax provisions were provided for the reporting period in accordance with the regulations of the relevant taxing authorities.

Note 7. 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 nine months ended May 31, 2011 and 2010, the Company has made appropriations in the amount of \$3,788,658 and \$2,930,914 to this statutory reserve, respectively. As of May 31, 2011 and August 31, 2010, the balances of the statutory reserve were \$14,128,209 and \$10,339,551, respectively.

Note 8. 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 May 31, 2011 and 2010.

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 May 31, 2011

| | Vocational Education | Order-oriented Service | Campus Services | Unallocated Amounts | Consolidated |
|----------------------------------|-------------------------|---------------------------|--------------------|------------------------|--------------|
| Net revenues | 10,001,591 | - | 6,864,329 | - | 16,865,920 |
| Cost of revenues | 5,217,384 | - | 5,631,626 | - | 10,849,010 |
| Gross profit | 4,784,207 | - | 1,232,703 | - | 6,016,910 |
| Depreciation and amortization | 353,574 | 11 | 256,114 | 86,016 | 695,715 |
| Total capital expenditures | 1,402,489 | - | 18,577 | 4,816,164 | 6,237,230 |

For the three months ended May 31, 2010

| Vocational | Order-oriented | Campus | Unallocated |
|------------|----------------|--------|-------------|
|------------|----------------|--------|-------------|

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| | Education | Service | Services | Amounts | Consolidated |
|----------------------------------|------------|---------|-----------|---------|--------------|
| Net revenues | 12,020,167 | - | 5,215,749 | - | 17,235,916 |
| Cost of revenues | 6,560,027 | - | 4,242,786 | - | 10,802,813 |
| Gross profit | 5,460,140 | - | 972,963 | - | 6,433,103 |
| Depreciation and amortization | 322,785 | 10 | 151,589 | 34,339 | 508,723 |
| Total capital expenditures | 1,959 | - | 1,783 | 838,714 | 842,456 |

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For the nine months ended May 31, 2011

| | Vocational Education | Order-oriented Service | Campus Services | Unallocated Amounts | Consolidated |
|----------------------------------|-------------------------|---------------------------|--------------------|------------------------|--------------|
| Net revenues | 29,005,264 | 3,425,702 | 13,571,232 | - | 46,002,198 |
| Cost of revenues | 16,116,417 | 326,278 | 11,453,793 | - | 27,896,488 |
| Gross profit | 12,888,847 | 3,099,424 | 2,117,439 | - | 18,105,710 |
| Depreciation and amortization | 1,046,905 | 34 | 686,458 | 181,600 | 1,914,997 |
| Total capital expenditures | 2,681,043 | - | 2,923,649 | 9,354,337 | 14,959,029 |

For the nine months ended May 31, 2010

| | Vocational Education | Order-oriented Service | Campus Services | Unallocated Amounts | Consolidated |
|----------------------------------|-------------------------|---------------------------|--------------------|------------------------|--------------|
| Net revenues | 23,926,773 | 2,224,837 | 10,958,480 | - | 37,110,090 |
| Cost of revenues | 13,167,499 | 166,979 | 8,983,353 | - | 22,317,831 |
| Gross profit | 10,759,274 | 2,057,858 | 1,975,127 | - | 14,792,259 |
| Depreciation and amortization | 961,774 | 36 | 353,961 | 93,597 | 1,409,368 |
| Total capital expenditures | 1,489,003 | - | 2,626,414 | 3,789,491 | 7,904,908 |

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 condensed consolidated

financial statements and accompanying notes ("Notes") included in this Form 10-Q.

OVERVIEW

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 one of the leading vocational education service providers 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.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2011 AND 2010

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: 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 are filed and approved by the related local authorities;
- Revenues 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;
- Revenues generated from campus services primarily consist of canteen services and grocery sales provided to our students.

Results of operations are a general reflection of our experience in providing customized educational programs, the operation time of our schools, the 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 36,926 in the second semester of fiscal year 2011.

The following table summarizes our unaudited condensed consolidated operating results for the three and nine months ended May 31, 2011 and 2010, respectively:

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| | For the three months ended | | | | For the nine months ended | | | |
|-------------------------------|----------------------------|------------------|-------------------|--------------|---------------------------|---------------------|------------------|--------------|
| | May 31, | | Comparison | | May 31, | | Comparison | |
| | 2011 US\$ | 2010 US\$ | Amount US\$ | Percent % | 2011 US\$ | 2010 US\$ | Amount US\$ | Percent % |
| Revenues | | | | | | | | |
| -Fee based | 10,001,591 | 12,020,167 | (2,018,576) | (17) | 32,430,966 | 26,151,610 | 6,279,356 | 24 |
| -Service based | 6,864,329 | 5,215,749 | 1,648,580 | 32 | 13,571,232 | 10,958,480 | 2,612,752 | 24 |
| | 16,865,920 | 17,235,916 | (369,996) | (2) | 46,002,198 | 37,110,090 | 8,892,108 | 24 |
| Cost of revenues | | | | | | | | |
| -Fee based | (5,217,384) | (6,560,027) | 1,342,643 | (20) | (16,442,695) | (13,334,478) | (3,108,217) | 23 |
| -Service based | (5,631,626) | (4,242,786) | (1,388,840) | 33 | (11,453,793) | (8,983,353) | (2,470,440) | 28 |
| | (10,849,010) | (10,802,813) | (46,197) | 0 | (27,896,488) | (22,317,831) | (5,578,657) | 25 |
| Gross profit | 6,016,910 | 6,433,103 | (416,193) | (6) | 18,105,710 | 14,792,259 | 3,313,451 | 22 |
| Selling expenses | | | | | | | | |
| | (259,593) | (268,893) | 9,300 | (3) | (599,303) | (512,651) | (86,652) | 17 |
| G&A expenses | | | | | | | | |
| | (741,108) | (567,662) | (173,446) | 31 | (2,275,550) | (1,495,898) | (779,652) | 52 |
| Income from operations | 5,016,209 | 5,596,548 | (580,339) | (10) | 15,230,857 | 12,783,710 | 2,447,147 | 19 |
| Other expenses | (25,143) | (47,588) | 22,445 | (47) | (116,154) | (1,062,665) | 946,511 | (89) |
| Income taxes | - | - | - | - | - | - | - | - |
| Net income | 4,991,066 | 5,548,960 | (557,894) | (10) | 15,114,703 | 11,721,045 | 3,393,658 | 29 |

For the three months ended May 31, 2011, we achieved total revenue of \$16,865,920, representing a decrease of \$369,996 or 2% as compared to \$17,235,916 for the three months ended May 31, 2010. Our net income for the three months ended May 31, 2011 was \$4,991,066, representing a decrease of \$557,894 or 10% as compared to \$5,548,960 for the same period of last year. For the nine months ended May 31, 2011, we achieved total revenue of \$46,002,198, representing an increase of \$8,892,108 or 24% as compared to \$37,110,090 for the nine months ended May 31, 2010. Our net income for the nine months ended May 31, 2011 was \$15,114,703, representing an increase of \$3,393,658 or 29% as compared to \$11,721,045 for the same period of last year.

Three Months Ended May 31, 2011 Compared With Three Months Ended May 31, 2010

Revenues, Cost of Revenues and gross profit by segment

| | For the three months ended May 31, | | | |
|------------------------------------|------------------------------------|--------------|---------------|------------|
| | 2011 | 2010 | Amount | Percentage |
| Revenues | | | | |
| Vocational Education - fee based | \$10,001,591 | \$12,020,167 | \$(2,018,576) | -17 % |
| Order-oriented service - fee based | - | - | - | |
| Campus Services - service based | 6,864,329 | 5,215,749 | 1,648,580 | 32 % |
| | 16,865,920 | 17,235,916 | (369,996) | -2 % |
| Cost of Revenues | | | | |
| Vocational Education - fee based | 5,217,384 | 6,560,027 | (1,342,643) | -20 % |
| Order-oriented service - fee based | - | - | - | |
| Campus Services - service based | 5,631,626 | 4,242,786 | 1,388,840 | 33 % |
| | 10,849,010 | 10,802,813 | 46,197 | 0 % |
| Gross Profit | | | | |
| Vocational Education - fee based | 4,784,207 | 5,460,140 | (675,933) | -12 % |
| Order-oriented service - fee based | - | - | - | |
| Campus Services - service based | 1,232,703 | 972,963 | 259,740 | 27 % |
| | \$6,016,910 | \$6,433,103 | \$(416,193) | -6 % |

(1) Revenues from vocational education primarily consist of tuition and fees derived from the programs we offer and collected from students based on the fee standards that are filed and approved by the related local authorities. For the three months ended May 31, 2011, total tuition and miscellaneous fees decreased 17% compared to tuition and miscellaneous fees for the three months ended May 31, 2010. The decrease was mainly attributable to the following:

- We had a cooperation agreement with Dongying Maritime School which was effective on September 1, 2009, whereby we provided the student recruiting services to the Dongying Maritime School in exchange for a fixed percentage of tuition. We achieved revenue of \$2,276,965 during the third quarter of fiscal 2010. There was no further cooperation agreement with the Dongying Maritime School in fiscal 2011.
- The second semester of fiscal 2011 began in February for four of our schools in Hunan province (Changsha HQ, Shaoshan HQ, Shaoshan and Shaoyang) and tuition and fees are proportionately recognized over five months from February to June. In fiscal 2010, the second semester ran from March to June in all of our schools and tuition and fees are proportionately recognized in the four months from March to June 2010. This also led to a decrease of revenue from vocational education for the three months ended May 31, 2011 over the same period of the prior year.

Costs of vocational education services mainly include salary and welfare of teachers, depreciation of teaching facilities and educational equipment, maintenance, and other expenses. For the three months ended May 31, 2011 we incurred a total costs of \$5,217,384, representing a decrease of 20% as compared to \$6,560,027 for the three months ended May 31, 2010. The decrease was mainly attributable to the following:

- Decrease in cost of teaching materials. The second semester of fiscal 2011 began in February in four of our schools (Changsha HQ, Shaoshan HQ, Shaoshan and Shaoyang), whereas the second semester of fiscal 2010 started in March in all of our schools. Since teaching materials such as textbooks were distributed to students at the very beginning of each semester, the cost of teaching materials for the three months ended May 31, 2011 decreased by \$390,405 to \$420,771 when compared with the amount of \$811,176 for the same period last year. For the same

reason, the maintenance expense, incurred for the three months ended May 31, 2011 decreased by \$439,017 compared to the same period of prior year.

- Decrease in cost of school-running cooperation. In fiscal 2010, the Company received revenue from Shandong Dongying Maritime School on recruitment of Maritime students. During the third quarter of fiscal 2010, such revenue totaled \$2,276,965 with a corresponding cost of \$564,228. In fiscal 2011, the Company had no such cooperation with Shandong Dongying Maritime School. This lead to a decrease in the cost of school-running cooperation for the third quarter of fiscal 2011 compared to the same period of prior year.

(2) Campus services primarily consist of canteen services and grocery sales. Due to the increase in the student enrollment and fee rates, revenues from our campus services increased by \$1,648,580 to \$6,864,329, an increase of 32%, for the three months ended May 31, 2011 as compared to revenues of \$5,215,749 for the three months ended May 31, 2010. 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. In response to this, we increased the fee standards for food by 25% from February 2011. As a result, the gross profit margin of such service this quarter increased 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, business development, salary and staff welfare, and travel expenses for our marketing personnel. Our selling expenses decreased by \$9,300 from \$268,893 for the three months ended May 31, 2010 to \$259,593 for the three months ended May 31, 2011, a decrease of 3%. The decrease was primarily attributable to decrease in repairs and maintenance expenses.

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 \$173,446 from \$567,662 for the three months ended May 31, 2010 to \$741,108 for the three months ended May 31, 2011, representing an increase of 31%. The increase was mainly attributable to the increase in professional service fees, office rental expense and amortization of intangible assets as a result of our business expansion.

Nine Months Ended May 31, 2011 Compared With Nine Months Ended May 31, 2010

Revenues, Cost of Revenues and gross profit by segment

| | For the nine months ended May 31, | | | |
|------------------------------------|-----------------------------------|--------------|-------------|------------|
| | 2011 | 2010 | Amount | Percentage |
| Revenues | | | | |
| Vocational Education - fee based | \$29,005,264 | \$23,926,773 | \$5,078,491 | 21 % |
| Order-oriented service - fee based | 3,425,702 | 2,224,837 | 1,200,865 | 54 % |
| Campus Services - service based | 13,571,232 | 10,958,480 | 2,612,752 | 24 % |
| | 46,002,198 | 37,110,090 | 8,892,108 | 24 % |
| Cost of Revenues | | | | |
| Vocational Education - fee based | 16,116,417 | 13,167,499 | 2,948,918 | 22 % |
| Order-oriented service - fee based | 326,278 | 166,979 | 159,299 | 95 % |
| Campus Services - service based | 11,453,793 | 8,983,353 | 2,470,440 | 28 % |
| | 27,896,488 | 22,317,831 | 5,578,657 | 25 % |
| Gross Profit | | | | |
| Vocational Education - fee based | 12,888,847 | 10,759,274 | 2,129,573 | 20 % |
| Order-oriented service - fee based | 3,099,424 | 2,057,858 | 1,041,566 | 51 % |
| Campus Services - service based | 2,117,439 | 1,975,127 | 142,312 | 7 % |
| | \$18,105,710 | \$14,792,259 | \$3,313,451 | 22 % |

(1) Revenues from vocational education primarily consisted of tuition and fees derived from the programs we offered and collected from students based on the fee standards that are filed and approved by the related local authorities. For the nine months ended May 31, 2011, total tuition and miscellaneous fees had an increase of 21% as compared to tuition and miscellaneous fees for the nine months ended May 31, 2010. The increase was the result of increases in our student enrollment and tuition rates as well as the expansion of our business.

- Our student enrollment increased to 37,408 and 36,926 for the first and second semester of fiscal 2011 as compared to 32,238 and 34,477 for the first and second semester of fiscal 2010, representing an increase of 16% and 7%. Our order-oriented education mode, excellent job placement rate and great reputation have attracted a greater number of students to study in our schools.
- Our tuition rates for fiscal year 2011 increased 11% compared with fiscal year 2010. The increase in tuition rates 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 nine months ended May 31, 2011 we incurred total cost of \$16,116,417, representing an increase of 22% as compared to \$13,167,499 for the nine months ended May 31, 2010. 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 nine months ended May 31, 2011 increased \$549,478 as compared with the amount for the same period of the 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 first and second semester of fiscal 2011 the total number of students enrolled in continuing education program was 3,756 and 3,839, representing an increase of 113% and 90%

when compared with the number of students for the same period of last year. This led to an increase of \$859,021 or 51% in cost of school-running cooperation as compared with the nine months ended May 31, 2011.

- 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 nine months ended May 31, 2011 increased \$422,323 or 32% when compared with depreciation expenses for the same period the prior year.

(2) Order-oriented services refer to off-campus internship arrangement and job placement service provided to our students. Revenues generated from order-oriented services for the nine months ended May 31, 2011 was \$3,425,702, representing an increase of \$1,200,865 or 54% when compared to \$2,224,837 for the nine months ended May 31, 2010. 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 students per month increased approximately 50%, and our commission fees charged to enterprise sponsors increased approximately 260% for the first semester of fiscal 2011 compared with the same period the prior year.

Cost of Order-oriented services mainly includes salaries 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. Order-oriented service cost for the nine months ended May 31, 2011 increased \$159,299 or 95% when compared to \$166,979 for the nine months ended May 31, 2010.

(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 \$2,612,752 to \$13,571,232, an increase of 24%, for the nine months ended May 31, 2011 as compared to revenues of \$10,958,480 for the nine months ended May 31, 2010. 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. To achieve a reasonable profit level, we increased the fee standards for food by 25% from February 2011. As a result, the gross profit margin of such services will increase in the future.

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, business development, salary and staff welfare, and travel expenses for our marketing personnel. Our selling expenses increased by \$86,652, from \$512,651 for the nine months ended May 31, 2010 to \$599,303 for the nine months ended May 31, 2011, an increase of 17%. The increase was primarily attributable to increase in staff compensation, travel and advertising 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 the 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 \$779,652 from \$1,495,898 for the nine months ended May 31, 2010 to \$2,275,550 for the nine months ended May 31, 2011, representing an increase of 52%. The increase was mainly attributable to the following:

(1)

The operation of the new schools and an increase in the student enrollment. Tianzhen HQ Vocational School commenced operations in September 2010 and we employed more management personnel for this new school. Meanwhile the increased student enrollment in the other schools demanded additional management personnel. This led to an increase of \$124,352 in salaries and welfare, representing an increase of 21%.

(2) The professional services fees mainly include legal fees, audit fees, secretary service fees and consulting fees. We incurred \$251,467 professional services fees for the nine months ended May 31, 2011 primarily for our recent financing activities. However, there was only \$41,967 in professional services fees incurred during the same period the prior year, which led to an increase of \$209,500 of general and administrative expenses.

Other expenses

Other expenses primarily consisted of donations to Changsha Foundation for Education, a fine for the termination of office rental agreements and a loss on disposal of property and equipment. Other expenses decreased \$946,511 from \$1,062,665 for the nine months ended May 31, 2010 to \$116,154 for the nine months ended May 31, 2011. This decrease was mainly due to the disposition of aged equipment during the nine months ended May 31, 2010, while there was no disposal of property and equipment during the nine months ended May 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

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

As of May 31, 2011, short-term borrowings consisted of two loans. One loan of \$463,042 (RMB 3,000,000) was borrowed from Changsha Foundation for Education. Another loan in the amount of \$239,238 (RMB1, 550,000) was borrowed from Ningxiang Rural Credit Cooperative Union. The current portion of our long-term loans consisted of three loans from Ningxiang Rural Credit Cooperative Union with total amount of \$671,411.

As of May 31, 2011, we have two loans from Mr. Guangwen He, majority stockholder of the Company. One loan of \$310,000 is unsecured, bears no interest, with term of two years and is payable on February 28, 2012. Another loan in the amount of \$3,086,944 (RMB 20,000,000) is unsecured, bears no interest, with a term of three years and is payable on May 25, 2014.

We anticipate that we will be able to meet both our short-term cash needs, as well as our needs 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.

Operating Activities

For the nine months ended May 31, 2011, the increase in net cash flows provided by operating activities was primarily attributable to an increase of approximately \$3.4 million in our net income for the nine months ended May 31, 2011 as compared to net income for the same period in fiscal 2010 and the collection in unearned revenue of approximately \$3 million. 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 effective cost control measures, a steady increase in cash flows provided by operating activities is expected in future. These increases are offset by a decrease in accounts payable of approximately \$1.3 million and an increase in accounts receivable of approximately \$1.8 million.

Investing Activities

For the nine months ended May 31, 2011, net cash flows used in investing activities were \$14,959,029, representing an increase of \$7,054,121 as compared with the cash flows used in investing activities of \$7,904,908 for the nine months ended May 31, 2010. The cash used in investing activities is mainly for the advance payment to vendors for the construction of buildings, the acquisition of school facilities and land use rights for Shaoshan Vocational Secondary School, Shaoyang Industrial Vocational Technical School, Sichuan Tianquan Vocational School, Sichuan Lushan Vocational School and Tianzhen HQ Vocational School.

Financing Activities

For the nine months ended May 31, 2011, net cash flows provided by financing activities were \$2,284,736, representing a decrease of \$730,194 in net cash flows as compared with net cash provided by financing activities of \$3,014,930 for the nine months ended May 31, 2010. We received \$234,526 and repaid \$975,933 bank loans during the nine months ended May 31, 2011. But during the nine months ended May 31, 2010 we received \$812,841 and only repaid \$556,540 bank loans. Proceeds from stockholder's loan amounted to \$3,026,143 during the nine months ended May 31, 2011, an increase of \$2,716,143 as compared with \$310,000 proceeds from stockholder's loan in the nine months ended May 31, 2010. For nine months ended May 31, 2011 and 2010, we collected \$-0- and \$2,448,629, respectively, for loans to related party.

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 revenues historically fluctuated quarterly and have 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 revenues 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 May 31, 2011.

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 to the accompanying consolidated condensed financial statements.

PRINCIPLES OF CONSOLIDATION

The accompanying unaudited condensed consolidated financial statements have been 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.

We determined that we are the primary beneficiary of Oya 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 losses and the right to receive returns from Oya.

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:

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, 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 their 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.

The Company did not have assets and liabilities that are measured at fair value on a recurring basis.

REVENUE RECOGNITION

The Company recognizes revenues in accordance with ASC 605 "Revenue 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, management estimates an 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 May 31, 2011 and August 31, 2010, the allowance for doubtful accounts was \$-0-. If we were to apply a hypothetical increase of 1% in estimating allowance for doubtful accounts for the period and year ended May 31, 2011 and August 31, 2010, respectively, the provision for bad debt expenses would increase by \$113,108 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 assumptions such as budgets, internal projections, and other available information as considered necessary. There was no impairment of long-lived assets as of May 31, 2011 and August 31, 2010.

INTANGIBLE ASSETS

Intangible assets are accounted for in accordance with the provisions of ASC 350, "Intangibles-Goodwill and Other ". 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 May 31, 2011 and August 31, 2010.

INCOME TAX

The Company did not generate any taxable income outside of the PRC for the nine months ended May 31, 2011 and 2010 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.

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, the management believes that the realization of the benefits arising from this loss appear to be uncertain due to 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. The management reviews this valuation allowance periodically and makes adjustments as warranted. The valuation allowance on May 31, 2011 was the same as August 31, 2010.

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 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.

As of May 31, 2011, 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

There were 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 May 31, 2011 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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (Removed and Reserved).

ITEM 5. OTHER INFORMATION

None.

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.

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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.

July 14, 2011

HQ Global Education Inc.

By: /s/ Guanwen He
Guanwen He
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Yunjie Fang
Yunjie Fang
Chief Financial Officer
(Principal Financial and Accounting Officer)