

# **CHINA EDUCATION RESOURCES INC.**



**Management's Discussion and Analysis  
For the period ended March 31, 2017**

**FORM 51-102F1**

This Management Discussion and Analysis (“MD&A”) reviews the activities of China Education Resources Inc. (“CER”), its Chinese operating subsidiaries, Today’s Teachers Technology & Culture Ltd. (“TTTC”), CEN Smart (“CEN”) and Zhong Yu Cheng Yuan Education Technology Ltd. (previously known as Zhong Yu Cheng Yuan Curriculum Development Center Ltd.) (“ZYCY”) (and/or collectively the “Group”) and compares the financial results for the period ended March 31, 2017 with the same period of 2016. The MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2016, copy of which is filed on the SEDAR website.

All financial information in this MD&A is prepared in accordance with International Financial Reporting Standards (“IFRSs”), except those exceptions specially mentioned. All dollar amounts presented are expressed in United States dollars unless otherwise noted.

## **FORWARD LOOKING INFORMATION**

Except for statements of historical fact, the discussion and analysis of financial performance and position including, without limitation, statements regarding projections, future plans, and objectives of CER are forward-looking statements that are subject to various risks and uncertainties. Forward-looking statements are based on management experience, historical results, current expectations and analyses, trends, government policies, and current business and economic conditions, including CER’s analysis of its product and distribution system and its expectations regarding the effects of anticipated product and distribution changes and the potential benefits of such efforts and activities on CER’s results of operations in future periods. There can be no assurance that such statements will prove to be accurate; actual results and future events could differ materially from those anticipated in such statements.

**DATE OF REPORT – May 30, 2017**

## **DESCRIPTION AND OVERVIEW OF BUSINESS**

CER is a corporation organized under the predecessor to the *Business Corporations Act* of British Columbia. CER is public company traded on the TSX Venture Exchange with the trading symbol “CHN” and OTCQX with the trading symbol “CHNUF”. The Group, through its subsidiaries in China, is a leading provider of kindergarten to grade 12 (“K-12”) education resources and services through its national internet portal, China Education Resources and Services Platform (“CERSP”), [www.cersp.com](http://www.cersp.com), to China’s kindergarten to grade 12 education market.

The Group has worked in all areas of education resources development, marketing and sales. Working with the Curriculum Development Center (“CDC”) of China’s Ministry of Education (“MOE”) and Chinese Society of Education (“CSE”) the largest academic association in China, CER has developed a unique national education portal ([www.CERSP.com](http://www.CERSP.com)) to help the Central Government implement policy reform. This reform effort is designed to bring China’s education system into the twenty first century by changing teaching methods from rote memory learning to a more individualized and creative approach. Teachers completed the national or provincial online training programs on CERSP.com will receive teacher’s continuing education credit from either MOE or provincial education authorities. In collaboration with China’s various education authorities and experts, the CERSP portal is designed to support all stakeholders and participants in the K-12 education domain; teachers, students, administrators, subject matter experts, and parents.

The Group's comprehensive Education Services Portal ("ESP") is a natural extension of CERSP, and helps to organize the wealth of teaching, learning, and administrative resources available through CERSP at the individual school level.

CERSP is the equivalent of a mega-portal. It is designed to be accessible by everyone associated with K-12 education across China and is loaded with robust features and resources that enable the development, delivery, and support of resources and activities related to the national K-12 education reform initiative. CERSP is a primary venue for teacher training in schools, districts, cities, and provinces. It is also the aggregator for subject matter experts in all K-12 subject areas and a place where they can gather virtually to improve upon the work they have done in response to national mandates.

ESP, on the other hand, is a commercial service for the K-12 education marketplace that extends the reach and relevance of the CERSP portal at the school and individual level. Its primary function is to support the administrative, teaching, learning, testing, and assessment needs of an individual school, and it does so in a way that is standardized, allowing for combined results to the district, city, province, or national level. CERSP can be regarded as a large "back-end" resource that greatly enriches each instance of ESP. ESP can be considered as a way to monetize the momentum of CERSP by creating a direct, revenue producing relationship with every school, administrator, teacher, parent and student that subscribes.

Currently, our ESP provides the following services:

(a) School Platform

The school platform provides a link between a school with its teachers, students and parents. Through the platform, the school can send messages to the teachers, students and parents. The teachers can upload homework and tests to the platform and the students can go to the platform to complete and submit their homework and write the tests. The school can automatically collect the markings received by each student. Each teacher and student has his or her own account number registered with the platform. Currently, the Group is adding mobile learning solutions to the School Platform for both of the students and teachers.

(b) Online tutoring program

Online tutoring program is a platform developed for a teacher to provide online tutoring services through the internet to his or her students. This program still has not started to generate revenue. Students have to prepay for the services to TTTC and TTTC pays the net amount to the teachers after deducting our share of revenue.

(c) Digital education products

Digital education products are the products containing digital textbook tutorial materials, digital supplementary materials such as lesson plans, course modules and tests. CER has had more than 100,000 lesson plans, course modules and continues to develop the materials.

The Group, through TTTC, acquired a 60% interest in Zhong Yu Cheng Yuan Education Technology Ltd. (previously known as Zhong Yu Cheng Yuan Curriculum Development Center Ltd.) ("ZYCY"), a distributor of education products in China for RMB6,000,000 (\$878,460) payable in 2,860,000 shares of common stock of the CER at a deemed value of

CND0.35 (\$0.30) per share. On top of increasing its book selling business, the Group can also strengthen its sales and distribution of its national CERSP and ESP web portal services in China through the sales team of ZYCY.

Due to the size of the Group, the provision of education internal portal services and distribution of educational textbooks and materials were considered in one segment based on the organizational structure, strategies, decision making and the availability of financial information.

#### *Four Step Growth and Revenue Strategy*

The Group has implemented a four-step growth and revenue strategy which is now being commercialized and expanded nationwide.

The first step of the strategy involves working with various levels of government to deliver government-funded online teacher training programs. The Group has developed more than 2,000 online teacher training courses for the continuous education of teachers. This means teachers can obtain government certificates upon successful completion of any of these courses through national, provincial and municipal teacher training programs. More than 600,000 teachers were trained in the Group's teacher training programs. CER is the only public company endorsed by China's Ministry of Education ("MOE") for national level online teacher training programs.

The second step of the strategy involves integrating the Group's products and services into teachers' daily routines. This will allow teachers to interact and communicate with each other while establishing a close relationship with the Group and its products. These products include online teacher training, professional development and sharing of lesson plans. The CERSP portal is one of the largest and most popular K-12 teacher blog systems in China with more than one million registered and active K-12 teachers. The CERSP portal has developed into a strong national brand and it has a reputation for offering best-in-class online learning products and services. The first two steps are well underway and are expanding into more provinces.

The third step involves promoting products directly to teachers through CER's School Platform. The School Platform provides a link between a school with its teachers, students and parents. Through the platform, the school can send messages to the teachers, students and parents. The teachers can upload homework and tests to the platform and the students can go to the platform to complete and submit their homework and write the tests. The school can automatically collect the markings received by each student. Each teacher and student has his or her own account number registered with the platform.

The fourth step of the growth strategy is to target students by offering a number of products and services. This includes offering our collection of online tutoring courses, customized education resources, formative assessment tools and education games. Currently, CER is adding mobile learning solutions to both of the students and teachers.

Please refer to the Outlook section at the end of this MD&A on the current achievement made by the Company.

## OVERALL PERFORMANCE

During the three months ended March 31, 2017, the Company generated revenue of 2,787,451 as compared with \$2,703,191 for the same period of last year. The net income attributable to the shareholders of the Company for the period was \$338,954 as compared to net loss of \$1,599 for the same period of last year. The net income per share was \$0.01 for the three months ended March 31, 2017 as compared to a net loss of per share of \$0.00 for comparable period ended March 31, 2016.

### Selected Annual Information

	2016	2015	2014
Total revenue	\$ 13,420,347	\$ 12,715,834	\$ 10,700,662
Net gain (loss)	1,157,048	(581,761)	(610,780)
Net income (loss) per share	0.02	(0.01)	(0.02)
Total assets	7,907,685	7,862,913	7,430,490
Long-term liabilities	-	-	-

The increase in net income for 2016 compared to 2015 was mainly due to the increase in revenue and decrease in selling expenses.

The decrease of the net loss for 2015 compared to 2014 was mainly due to the increase in revenue and other income.

### Results of Operations

#### *For the three months ended March 31, 2017:*

For the three months ended March 31, 2017, the Group reported aggregate sales revenue of \$2,787,451 (2016: \$2,703,191). The revenue from book sales and distribution service was \$1,142,756 and revenue from online products was \$1,644,695. There was an increase in revenue from book sales and distribution service for the current quarter as compared to the same period in 2016.

The following is a discussion of certain expense categories:

#### *General and administrative expenses*

For the three months ended March 31, 2017, general and administrative expenses were \$309,845 as compared to \$342,843 for the same period in 2016.

Salaries, wages, commission and benefits were \$211,897 for the three months ended March 31, 2017 as compared to \$166,884 for the same period in 2016.

Consulting expense were \$34,454 for the three months ended March 31, 2017 as compared to \$41,358 for the same period in 2016.

Rent expense were \$40,652 for the three months ended March 31, 2017 as compared to \$38,402 for the same period in 2016.

There was no stock-based compensation expense for the three months ended March 31, 2017 as compared to \$2,927 for the same period in 2016.

*Amortization*

The amortization increased to \$7,332 for the three months ended March 31, 2017 as compared to \$4,887 for the same period in 2016.

*Selling expenses*

The selling expenses was \$1,063,856 for the three months ended March 31, 2017, which is increased as compared to \$974,820 incurred in the same period in 2016.

*Finance cost*

The Company incurred finance costs of \$25,222 for the three months ended March 31, 2017 as compared to \$44,337 for the same period of 2016. The decrease was mainly due to the decrease in loan interest paid.

**SUMMARY OF QUARTERLY AND ANNUAL RESULTS**

All amounts are expressed in United States dollars. In addition, all amounts are in thousands except for per share amounts.

	<b>For the Quarters Ended</b>			
	<b>3/31/2017</b>	<b>12/31/2016</b>	<b>9/30/2016</b>	<b>6/30/2016</b>
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	2,787	3,564	2,100	5,099
Net income (loss) for the period	353	(1,006)	593	1,500
Net income (loss) per share	0.01	(0.01)	0.01	0.02
Total assets	7,580	7,908	9,561	10,352
Total liabilities	8,352	8,973	10,973	12,379

	<b>For the Quarters Ended</b>			
	<b>3/31/2016</b>	<b>12/31/2015</b>	<b>9/30/2015</b>	<b>6/30/2015</b>
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Revenue	2,703	3,541	2,139	3,950
Net income (loss) for the period	70	(1,912)	383	471
Net income (loss) per share	0.00	(0.03)	0.01	0.00
Total assets	6,852	7,863	8,654	9,038
Total liabilities	10,290	9,999	10,405	11,269

## **FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

Working capital deficiency decreased by \$258,526 to an amount of \$904,663 at March 31, 2017 from a working capital deficiency of \$1,163,189 at the beginning of the year, primarily as a result of the increase in accounts and other receivables and decrease in trade and other payable during the current period

Cash used in operating activities was \$2,927,166 for the period ended March 31, 2017, compared to \$1,261,371 for the period ended March 31, 2016.

Cash used in investing activities was \$22,952 for the period ended March 31, 2017, compared to \$158,036 for the period ended March 31, 2016. The cash outflow for investing activities was related to the acquisition of equipment for the respective periods.

Cash provided by financing activities was \$486,771 for the period ended March 31, 2017, compared to \$1,308,409 for the period ended March 31, 2016.

At March 31, 2017, accounts and other receivables increased to \$5,963,716 from \$3,861,590 at December 31, 2016. The increase was mainly due to the long credit period required to collect the outstanding receivables.

The Group has increased its types of services provided through its education service portal. The revenue of the Group is expected to increase through providing additional services to the customers. The Group also plans to have equity or debt financing to maintain the Group's capacity, meet planned growth and fund development activities.

### **Equipment**

At March 31, 2017, the Group's net equipment cost was \$132,774 as compared to \$97,902 as at December 31, 2016. This increase was mainly attributed to the amortization and depreciation of \$7,332 for the current period and the new equipment purchased during the period.

## Liabilities

The Group's total liabilities were \$8,351,521 as at March 31, 2017, compared to \$8,972,972 as at December 31, 2016, mainly due to the decrease in trade and other payables during the current period.

## Shareholders' Equity

There was a shareholders' deficiency of \$1,499,207 as at March 31, 2017 as compared to \$1,793,924 as at December 31, 2016, which included the net income attributable to shareholders of \$338,954 for the period ended March 31, 2017 as compared to the net loss of \$1,599 attributable to shareholders in 2016.

## Outstanding share data

The Group's common shares outstanding as at May 30, 2017 were 47,364,983.

On March 15, 2017, 1,000,000 stock options with an exercise price of \$0.40 each were expired and unexercised.

On May 29, 2017, the Company granted 1,000,000 stock options with an exercise price of \$0.14 each expiring on May 29, 2022.

At May 30, 2017, the Group has outstanding stock options of 3,700,000. Details are as follows:

Exercise Prices (CND)	Number	Expiry Date
\$ 0.10	2,700,000	November 25, 2020
0.14	1,000,000	May 29, 2022
	<u>3,700,000</u>	

As at May 30, 2017, there were no outstanding stock purchase warrants.

## Dividend

The payment of dividends to shareholders will depend on a number of factors such as earnings, CER's financial requirements and other factors that the Board of Directors considers relevant in the circumstances. The Group currently does not have intention to pay dividends on the common shares. The Board of Directors will review this policy, from time to time, as circumstances change. To date, CER has not declared or paid any dividends on any of its shares.

## OFF-BALANCE SHEET ARRANGEMENTS

The Group does not have any off-balance sheet arrangements.



## TRANSACTIONS WITH RELATED PARTIES

All related party transactions are recorded in the normal course of operations on normal commercial terms and conditions and at market rates, which is the amount of consideration established and agreed to by the related parties.

### Key management personnel and director transactions

Directors of the Group control approximately 13.7% percent of the voting shares of the Group.

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

Director/Officer	Transaction	March 31,	
		2017	2016
C F Zhou (director and CEO)	Consulting fees (i)	\$ 34,454	\$ 34,420
C F Zhou (director and CEO)	Interest expense (ii)	4,547	4,452
Danny Hon (director and CFO)	Accounting fees (iii)	15,111	15,097
Danny Hon (director and CFO)	Interest expense (iv)	1,958	1,977
		<u>\$ 56,070</u>	<u>\$ 55,946</u>

Director/Officer	Balance	March 31,	December 31,
		2017	2016
C F Zhou (director and CEO)	Consulting fees payable (i)	\$ 1,043,706	\$ 1,001,582
C F Zhou (director and CEO)	Loan payable (ii)	122,129	121,174
C F Zhou (director and CEO)	Loan interest payable (ii)	74,064	72,726
Danny Hon (director and CFO)	Accounting fees payable (iii)	439,480	436,044
Danny Hon (director and CFO)	Loan payable (iv)	52,584	52,173
Danny Hon (director and CFO)	Loan interest payable (iv)	40,137	41,617
		<u>\$ 1,772,100</u>	<u>\$ 1,725,316</u>

- (i) The consulting fees owing to C F Zhou as at March 31, 2017 is unsecured, due on demand with no interest.
- (ii) The short-term loans were unsecured and due on demand with an annual interest rate of 15%. As at March 31, 2017, there was an interest payable balance of \$74,064(December 31, 2016: \$72,726) owed to C F Zhou.
- (iii) The Group engaged a company, which is controlled by Danny Hon, to provide accounting services. The balance owing to the company controlled by Danny Hon as at March 31, 2017 is unsecured, due on demand with no interest.
- (iv) The short-term loans were unsecured and due on demand with an annual interest rate of 15%. As at March 31, 2017, there was an interest payable balance of \$40,137 (December 31, 2015: \$41,617)

owed to Danny Hon.

## **RISK AND UNCERTAINTY FACTORS**

### **History of losses and anticipate that we may continue for the foreseeable future**

The Group has recognized a net income attributable to shareholders of \$338,954 (2016: net loss of \$1,599) for the period ended March 31, 2017 and has incurred a cumulative loss of \$34,410,987 since inception. The Group's future business plan includes the further development and operation of CER's education service portal and soccer education program as well as sino-foreign co-operation to develop English as a second language training program in China and Chinese Mandarin training program in U.S. The Group's ability to continue as a going concern is depending upon achieving acceptance by the users and profitable level of operations of the education service portal and on the ability to obtain necessary financing to fund our operations. The outcome of these matters cannot be predicted at this time.

### **Seasonality**

Historically in its traditional distribution business, the operations of the business are highly seasonal. The Group is attempting to lessen the seasonality of the business by expanding its business into other related areas in the education sector through its internet education service portals.

### **Reliance on Government Relationships**

The Group is relying upon continued good working relationships and acceptance from both the national and regional governments it works with. Additionally, continued collaboration with the CDC is important to the Group being able to sell and deliver the teacher training programs. If the CERSP portal was no longer acceptable or it failed to meet acceptable government standards for the K-12 sector, it would seriously impact the continued successful deployment of the CERSP portal and education service portal.

### **Tax and Legal Systems in China**

The Group, through its subsidiaries, conducts a significant amount of its business in China. China currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), and payroll (social) taxes, together with others. Laws related to these taxes have not been in force for a significant period, in contrast to more developed market economies; therefore, implementing regulations are often unclear or nonexistent. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in China substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that the relevant authorities could take different positions with regard to interpretive issues and the effect could be significant. The fact that a year has

been reviewed does not close that year, or any tax declaration applicable to that year, from further review.

### **Competition**

Foreign direct investment in China has increased rapidly and the investment environment has further improved to encourage foreign and local investors to invest in fields, such as education, high-tech, modern agriculture and infrastructure construction. A number of large companies are involved in the publishing and distribution of educational products in the mainstream areas of math, science and language arts. There is no guarantee that other competitors will not become involved in business similar to that of the Group.

### **Management**

The Group currently has a small executive management group, which is sufficient for its present stage of development. Although the Group's development to date has largely depended and in the future will continue to depend upon the efforts of certain current executive management, the loss of a member of this group could have a material adverse effect on the Group.

### **Funds Remittance**

Provided that conversion of Renminbi into foreign exchange and the remittance of foreign exchange are duly arranged in accordance with the relevant laws and regulations on foreign exchange, a Foreign Investment Enterprise ("FIE") is able to remit dividends and other payments from China.

According to the 1999 Circular on Relevant Questions Concerning the Remittance of Profits, Dividends and Bonuses out of China Through Designated Foreign Exchange Banks, effective from October 1, 1999, an FIE is permitted to remit profits, dividends and bonuses out of China in proportion to the amount of registered capital that has been paid up, notwithstanding that its registered capital has not been paid up pursuant to its constitutional documents.

### **Financial Instruments**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's financial instruments consist of cash, trade and other receivables, due from related parties, long term other receivable, and trade and other payables.

The Group's financial instruments are exposed to the risks described below:

#### **(a) Credit risk**

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to cash and accounts and other receivables. The Group has no significant concentration of credit risk arising from operations. Other receivables mainly consist of an advance to a third party for project development, as well as goods and services tax due from the Federal Government of Canada, interest receivable and amounts advanced to employees and others. Management assesses the

credit risk concentration with respect to accounts receivable and other receivables annually and adjusts them according.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. At March 31, 2017, the Group had a working capital deficiency of \$904,663 (December 31, 2016: \$1,163,189). The Group is focused on generating sales revenue and is actively pursuing additional sources of financing to ensure that it can meet its ongoing operating requirements and planned capital expenditures.

(c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and equity prices.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. From time to time, the Group is exposed to short term interest rates through the interest earned on cash. The Group only has debt with fixed interest rates. The Group's current policy is to invest excess cash in short-term deposits with its banking institutions. The Group periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(e) Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates.

The majority of the Group's assets, liabilities, revenues and expenses are denominated in Chinese Renminbi ("RMB"), which was tied to the U.S. dollar and is now tied to a basket of currencies of China's largest trading partners, is not a freely convertible currency. The appreciation of the RMB against the U.S. dollar would result in an increase in the assets, liabilities, revenues and expenses of the Group and a foreign currency gain included in comprehensive income. Conversely, the devaluation of the RMB against the US dollar would result in a decrease in the assets, liabilities, revenues and expenses of the Group and a foreign currency loss included in comprehensive income.

The Company's functional currency is the Canadian dollar and the functional currencies of its subsidiaries are RMB. The Group maintains Chinese RMB bank accounts in China to support monthly forecasted cash outflows. Management believes the foreign exchange risk derived from currency conversions is minimal and therefore does not hedge its foreign exchange risk.

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

## **SIGNIFICANT ACCOUNTING POLICIES**

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2016.

### **New standards and interpretations adopted during the period**

The Group adopted the following new standards during the period:

#### *IAS 7 Statement of Cash Flows (“IAS 7”)*

On January 1, 2017, the Company adopted the amendments to IAS 7 pursuant to which entities will be required to provide enhanced information about changes in their financial liabilities, including changes from cash flows and non-cash changes. Adoption of the amendments to IAS 7 did not have a material impact to the consolidated financial statements.

#### *IAS 12 Income Taxes (“IAS 12”)*

On January 1, 2017, the Company adopted amendments to IAS 12, which clarifies guidance on the recognition of deferred tax assets related to unrealized losses resulting from debt instruments that are measured at fair value. The Company does not currently measure any of its debt instruments at fair value. Therefore, the implementation of this standard did not have any material impact to the Company’s financial statements.

### **New standards and interpretations not yet adopted during the period**

Standards issued but not yet effective up to the date of issuance of the Company’s consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective. The Company does not expect the impact of such changes on the consolidated financial statements to be material.

#### *IFRS 9 Financial instruments (“IFRS 9”)*

This is a finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- **Classification and measurement.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a ‘fair value through other comprehensive income’ category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized

- Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- De-recognition. The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS 39.
- The effective date of this new standards has recently been deferred by the IASB to annual periods beginning on or after January 1, 2018. The Group has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

#### *IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)*

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Under IFRS 15, revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The IASB has issued an exposure draft that would, if approved defer the effective date to January 1, 2018. The Group has not yet assessed the impact of this standard or determined whether it will adopt the standard early.

#### *IFRS 16 Leases (“IFRS 16”)*

In January 2016, the IASB issued IFRS 16, replacing IAS17, “Leases”. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet providing the reader with greater transparency of an entity’s lease obligations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption provided. The Company is currently evaluating the impact of this standard.

## **OUTLOOK**

The Group’s objective is to become the leading kindergarten to grade 12 education service platform, content provider and social networking system in China’s education sector. The Group provides a range of services to government education authorities, schools, teachers, students and their parents.

As part of our four-step growth and revenue strategy, the Group has achieved the followings:

CER has developed digital textbooks and started to provide the digital textbooks to the students in China. This is a significant step for CER to combine the Group’s internet portal with traditional textbooks, which also provides significant opportunities for CER’s textbook business.

The Group has developed more than 2,000 online teacher training courses for the continuous education of teachers and also developed more than 100,000 K-12 online lesson plans and is continuing to develop new educational content and upgrade the technology and functions of its portal.

CER has launched the first version of mobile APP for teacher training program in 2015. The APP allows users to participate teacher training program through using their smartphones, i.e.

watch user friendly video contents, discuss and communicate with other teachers on the training topics in virtue classrooms, get experts help, read training calendar, complete homework of the training program, read newsletters from the training program, retrieve personal training status report, share photos with other teachers, have social networking with other teachers, etc.

The mobile APP is integrated into the WeChat platform. WeChat is one of the most popular mobile phone social networks in China with 549 million monthly active users. WeChat creates a place for people to express themselves with their friends and close contacts. CER's mobile APP launching brings CER brand and platform into the WeChat space. This is a terrific opportunity to expand CER's product offering to broader audiences as many teachers communicate with each other via WeChat. During the teacher training program, CER will also introduce other programs to the teachers who may in turn introduce their friends and contacts to participate in any one of these programs.

On top of the mobile APP for teacher training program, CER is the first education service provider in China that can provide a "total solution" to satisfy the requirements from the Ministry of Education of China ("MOE") to ensure that Chinese teachers can really use and apply their education technology skills in the classrooms after completion of the teacher training program. CER has developed a formative assessment program which integrates the functions of CER School Platform as part of the teacher training program. The formative assessment program emphasizes on practicing the skills of delivering education contents to and interacting with the students through information and communications technology ("ICT") in the classrooms.

CER has signed a Memorandum of Understanding with SOXNA S.L. to develop soccer education program for China K-12 teachers and students. SOXNA S.L. is a Spanish company that has cooperated with some of the most famous international soccer clubs such as Real Madrid C.F., Manchester United, Manchester City, Oporto and is also the only authorized agent for Real Madrid licensing business in China.

CER has also signed a three-party agreement with Encyclopedia of China Publishing House and SOXNA S.L. to develop soccer education textbooks for China K-12 teachers and students. Encyclopedia of China Publishing House is one of the major national publishers in China with national distribution networks and publishes various classes of professional, educational and general books. It also engages in the publishing of cross-media, multimedia and digital books. SOXNA S.L. has been running several significant sport programs, such as The Evergrande Real Madrid Foundation Football School, which is the largest soccer school in the world. SOXNA S.L. has created a series of unique teaching methodology through collecting and analyzing the most successful experiences of the soccer specialists and authoritative sources from Europe.

Soccer education has emerged as a new horizon in China education sector and is rapidly spreading throughout China. Soccer game is very popular in China and the Chinese central government has announced the China School Soccer Master Plan in 2015 and declared soccer as a national priority and harbors an ambition to see the country host and win the World Cup. It is the first time ever in China that it introduces soccer textbook to China K to 12 school system as mandatory courses. As a result, Chinese students urgently need leading edge soccer education materials from the latest international soccer industry.

Partnership with Encyclopedia of China Publishing House and SOXNA S.L. results in a premier team creating brand new soccer textbooks with the best content and leading edge online training platform for K to 12 students and teachers. We are excited of the great opportunity to integrate the functions of our online teacher training platform and school platform, and provide a unique blended online/offline contents and services to teachers and students for soccer education program. We expect the partnership will generate more revenue to CER.

The current China soccer market is estimated to be \$200 billion. By 2025, the China sports industry is forecasted to reach \$859.9 billion, and the biggest segment is soccer. Management believes that CER will benefit from the China soccer market through providing various types of soccer education programs.