CHINA EDUCATION ALLIANCE INC.
Form 10QSB
May 16, 2007

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-QSB

x QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ______________ to ________________

Commission File Number: 333-101167

China Education Alliance, Inc.
(Exact name of small business issuer as specified in its charter)

North Carolina	56-2012361
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

80 Heng Shan Rd. Kun Lun Shopping Mall
Harbin, P.R. China 150090
(Address of principal executive offices)

1-86-451-8233-5794
(Issuer's telephone number)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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. x Yes o No

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes o No o

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: 57,965,000 shares as of May 11, 2007

Transitional Small Business Disclosure Format (check one): Yes o No x

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

China Education Alliance, Inc. and Subsidiaries
Condensed Consolidated Balance Sheet
March 31, 2007
(Unaudited)

ASSETS		
Current Assets		
Cash and cash equivalents	$	3,618,217
Other receivables		517
Prepaid expenses		892,221
Total current assets		4,510,955
Property and equipment, net		5,014,884
Franchise rights		877,422
Goodwill		43,696
	$	10,446,957
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$	287,727
Deferred revenues		204,599
Loan from shareholder		134,992
Notes payable		1,530,000
Total current liabilities		2,157,318
Stockholders' Equity		
Preferred stock ($0.001 par value, 5,000,000 shares authorized, none issued and outstanding)		-
Common stock ($0.001 par value, 150,000,000 shares authorized, 57,965,000 issued and outstanding)		57,965
Additional paid-in capital		2,642,603
Accumulated other comprehensive income		368,033
Retained earnings		5,221,038
Total stockholders' equity		8,289,639
	$	10,446,957

China Education Alliance, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Three Months Ended March 31, 2007 and 2006
(Unaudited)

		2007		2006
Revenues				
Online education revenues	$	2,626,668	$	1,347,403
Training center revenues		459,559		0
Total revenue		3,086,227		1,347,403
Cost of Goods Sold				
Online education costs		667,747		493,751
Training center costs		218,564		-
Total cost of goods sold		886,311		493,751
Gross Profit		2,199,916		853,652
Operating Expenses				
Selling expenses		750,438		89,023
Administrative		157,663		29,595
Depreciation and amortization		106,125		55,978
Total operating expenses		1,014,226		174,596
Other Income (Expense)				
Interest income		5,627		896
Interest expense		(104,497)		-
Total other income (expense)		(98,870)		896
Net Income Before Provision for Income Tax		1,086,820		679,952
Provision for Income Taxes				
Current		83,907		-
Deferred		-		-
		83,907		-
Net Income	$	1,002,913	$	679,952
Basic Earnings Per Share	$	0.02	$	0.01
Basic Weighted Average Shares Outstanding		57,943,000		55,364,375
Diluted Earnings Per Share	$	0.02	$	0.01
Diluted Weighted Average Shares Outstanding		60,570,972		55,364,375
The Components of Other Comprehensive Income				
Net Income	$	1,002,913	$	679,952
Foreign currency translation adjustment		258,766		19,067

Comprehensive Income	$	1,261,679	$	699,019

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China Education Alliance, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2007 and 2006
(Unaudited)

	2007	2006
Cash flows from operating activities		
Net Income	$ 1,002,913	$ 679,952
Adjustments to reconcile net cash provided by operating activities		
Depreciation and amortization	153,120	81,128
Amortization of loan discount	81,563	-
Stock issued for services	15,900	-
Warrants issued for services	7,876	-
Net change in assets and liabilities		
Inventories		(2,269)
Other receivables	54,206	(52)
Prepaid expenses and other	429,227	(45,506)
Accounts payable and accrued liabilities	76,578	(46,218)
Advances by customers	(104,767)	236,153
Net cash provided by operating activities	1,716,616	903,188
Cash flows from investing activities		
Purchases of fixed assets	(25,986)	(63,552)
Net cash (used in) investing activities	(25,986)	(63,552)
Cash flows from financing activities		
Proceeds (payments) from loan from shareholder, net	(952)	40,346
Proceeds from notes payable	-	-
Net cash provided by financing activities	(952)	40,346
Effect of exchange rate	90,200	69,233
Net increase in cash	1,779,878	949,215
Cash and cash equivalents at beginning of year	1,838,339	597,444
Cash and cash equivalents at end of year	$ 3,618,217	$ 1,546,659
Supplemental disclosure of cash flow information		
Interest paid	$ 25,010	$ -
Taxes paid	$ -	$ -
Stock issued for services	$ 15,900	$ -
Value of warrants issued for services	$ 7,876	$ -

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1. Description of Business

Nature of organization - China Education Alliance, Inc. (the "Company" or "CEDA"), formerly known as ABC Realty Co., was originally organized under the laws of the State of North Carolina on December 2, 1996. The initial purpose of ABC Realty was to engage in residential real estate transactions as a broker or agent. On September 15, 2004, ABC Realty was reorganized pursuant to the Plan of Exchange to acquire Harbin Zhong He Li Da Education Technology, Inc. ("ZHLD"), a corporation formed on August 9, 2004 in the City of Harbin of Heilongjiang Province, The People's Republic of China, with an authorized capital of $60,386 (RMB500,000).

On September 15, 2004, ABC Realty Co. executed a Plan of Exchange with ZHLD, and Duane C. Bennett, Chairman of ABC Realty Co., pursuant to which ZHLD exchanged all of its registered capital of $60,386 for 55,000,000 shares, or approximately 95% of the common stock of the Company. On November 17, 2004, ABC Realty Co. changed its name to China Education Alliance, Inc. On December 13, 2004, China Education Alliance, Inc. consummated the Plan of Exchange with ZHLD. As a result of the Plan of Exchange, the transaction was treated for accounting purposes as a recapitalization of ZHLD.

ZHLD is a technology company engaged in the online education industry in China. Its mission is to promote distance learning development in China, to improve the efficiency and effectiveness of elementary education, higher education, vocational education, skill education, continuing education, and professional training programs, and to integrate with the international education system.

Heilongjiang Zhonghe Education Training Center ("ZHTC") was registered in The People's Republic of China on July 8, 2005 with a registered capital of $60,386 and is the wholly owned subsidiary of ZHLD. ZHLD owns 99% of ZHTC with 1% held in trust by Xi Qun Yu for the benefit of China Education Alliance, Inc..

ZHLD also owns 70% of Beijing Hua Yu Hui Zhong Technology Development Co., Ltd ("BHYHZ"). BHYHZ was formed on September 30, 2006. The remaining 30% interest was given to The Vocational Education Guidance Center of China for no consideration. In consolidation, the 30% of BHYHZ's gave to The Vocational Education Guidance Center of China was treated as goodwill in consolidation.

The Company's online education business has established positions in several segments, including supplemental education and test preparation for grades kindergarten through high school.

The Company's products include on-line test preparation materials, teachers' materials, study guides and audio recordings of popular classes. It is a full range professional education resource service provider. The business scope includes distance learning technology, education resource development, education project planning and promoting, teaching platform, and class development and schedules, education information, and technical service. The products cover all education ranges, including pre-school education, elementary and middle school education, vocational education, continuing education, enterprise training program, intelligence authentication, agricultural labor education, education for the disabled, first time employment education, re-employment education, study abroad, education for seniors.

2. Basis of Preparation of Financial Statements

ZHLD, Zhonghe Education Training Center and Beijing Hua Yu Hui Zhong Technology Developments Co., Ltd. maintain their books and accounting records in Renminbi ("RMB").

The accompanying condensed consolidated financial statements have been prepared in compliance with Rule 10-01 of Regulation S-X and U.S. generally accepted accounting principles, but do not include all of the information and disclosures required for audited financial statements. These statements should be read in conjunction with the condensed consolidated financial statements and notes thereto included in the Company's latest Annual Report on Form 10-KSB for the year ended December 31, 2006. In the opinion of management, these statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The accompanying financial statements differ from the financial statements used for statutory purposes in PRC in that they reflect certain adjustments, recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, and depreciation and valuation of property and equipment and intangible assets.

3. Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly and majority owned subsidiaries, ZHLD, Zhonghe Education Training Center and Beijing Hua Yu Hui Zhong Technology Developments Co., Ltd. All inter-company transactions and balances were eliminated. Minority interest in the net assets and earnings or losses of BHYHZ are reflected in the caption "Minority interest" in the Company's Consolidated Balance Sheet and Statements of Operations. Cumulative losses applicable to minority interest that exceed the minority's interest in the subsidiary's capital, the losses in excess of the minority's interest in the subsidiaries capital are charged against the majority interest. Subsequent profits earned by a subsidiary under such circumstances that are applicable to the minority interests should be allocated to the majority interest to the extent minority losses have been previously absorbed.

Use of estimates - The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of net sales and expenses during the reported periods.

Significant estimates included values and lives assigned to acquired intangible assets, reserves for customer returns and allowances, uncollectible accounts receivable, slow moving, obsolete and/or damaged inventory and stock warrant valuation. Actual results may differ from these estimates.

Cash and cash equivalents - The Company considers all highly liquid debt instruments purchased with maturity period of three months or less to be cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheet for cash and cash equivalents approximate their fair value. Substantially all of the Company's cash is held in bank accounts in The Peoples Republic of China and is not protected by FDIC insurance or any other similar insurance.

Property and equipment - Property and equipment is stated at the historical cost, less accumulated depreciation. Depreciation on property, plant and equipment is provided using the straight-line method over the estimated useful lives of the assets after taking into account a 5% residual value for both financial and income tax reporting purposes as follows:

Buildings	20 years
Communication Equipment	10 years
Motor vehicles	5 years
Furniture, Fixtures, and Equipment	5 years

Expenditures for renewals and betterments were capitalized while repairs and maintenance costs are normally charged to the statement of operations in the year in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset.

Upon sale or disposal of an asset, the historical cost and related accumulated depreciation or amortization of such asset were removed from their respective accounts and any gain or loss is recorded in the Statements of Operations.

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment at March 31, 2007.

Intangible Assets - Intangible assets consist of franchise rights acquired by the Company and are amortized over the lives of the rights agreements, which is five years. The Company evaluates the carrying value of intangible assets during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the intangible asset below its carrying amount. There were no impairments recorded during the year ended December 31, 2006 or the three months ended March 31, 2007.

Foreign Currency - The Company's principal country of operations is The People's Republic of China. The financial position and results of operations of the Company are determined using the local currency ("Renminbi" or "Yuan") as the functional currency. The results of operations denominated in foreign currency are translated at the average rate of exchange during the reporting period.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange ruling at that date. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. All translation adjustments resulting from the translation of the financial statements into the reporting currency ("US Dollars") are dealt with as a separate component within shareholders' equity.

Income recognition - Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, which states that revenue should be recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the service has been rendered; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The Company believes that these criteria are satisfied upon customers download prepaid study materials.

Prepaid debit cards allow our subscribers to purchase a predetermined monetary amount of download materials posted on our website. The Company's new system is able to track usage of the debit card once the end user uses the debit cards for its service.

Prepaid service contracts are amortized to income on a straight line basis over the length of the service contract. These service contracts allow the user to have unlimited access to study materials for a designed period of time.

At the time that the prepaid debit card is purchased, the receipt of cash is recorded as deferred revenue. Revenues are recognized in the month when services are actually rendered. Unused value relating to debit cards is recognized as revenues when the prepaid debit card has expired.

Interest income is recognized when earned, taking into account the average principal amounts outstanding and the interest rates applicable

Prepayments Account - Prepaid expenses are primarily comprised of advance payments made for services to teachers for online materials and video and prepaid advertising. At March 31, 2007, prepayments to teachers to provide online materials totaled $637,600, prepayment of rent expense totaled $169,200, and others $64,700.

Goodwill - In connection with the organization of BHYHZ the Company gave an unrelated governmental entity a 30% ownership in interest in the contributed capital of BHYHZ. In consolidation, this transfer of ownership is reflected as goodwill on the consolidated financial statements. At March 31, 2007, goodwill incurred in connection with this transaction was $43,696.

The Company evaluates the carrying value of goodwill during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The fair value of the reporting unit is estimated using a combination of the income, or discounted cash flows, approach and the market approach, which utilizes comparable companies' data. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value. The Company's evaluation of goodwill completed during the year resulted in no impairment losses.

Deferred Revenue - Deferred revenue reflects the unearned portion of debit cards sold and prepaid service contracts payments received.

Advertising - The Company expensed advertising costs the first time the respective advertising took place. These costs were included in selling, general and administrative expenses. The total advertising expenses incurred for three months ended March 31, 2007 and 2006 were $145,600 and $0, respectively.

Taxation - Taxation on profits earned in the PRC has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the PRC in the Company operates after taking into effect the benefits from any special tax credits or “tax holidays” allowed in the country of operations.

The Company does not accrue United States income tax on unremitted earnings from foreign operations as it is the Company’s intention to invest these earnings in the foreign operations indefinitely.

Enterprise income tax

Under the Provisional Regulations of The People’s Republic of China Concerning Income Tax on Enterprises promulgated by the State Council which came into effect on January 1, 1994, , income tax is payable by a Wholly Foreign Owned Enterprises at a rate of 15% of their taxable income. Preferential tax treatment may, however, be granted pursuant to any law or regulations from time to time promulgated by the State Council. ZHLD enjoyed a 100% exemption from enterprise income taxes during 2006 due to its classification as a “Wholly Foreign Owned Enterprise”. This exemption will end on April 8, 2007, at which time ZHLD will qualify under the current tax structure for a 50% reduction in the statutory enterprise income tax rates for an additional three years.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets, including tax loss and credit carry forwards, and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Value added tax

The Provisional Regulations of The People’s Republic of China Concerning Value Added Tax promulgated by the State Council came into effect on January 1, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the PRC Concerning Value Added Tax, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Value added tax payable in The People’s Republic of China is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided, but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

Contingent liabilities and contingent assets - A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Company.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

Related companies - A related company is a company in which a director or an officer has beneficial interests in and in which the Company has significant influence.

Retirement benefit costs - According to The People's Republic of China regulations on pensions, the Company contributes to a defined contribution retirement program organized by the municipal government in the province in which the Company was registered and all qualified employees are eligible to participate in the program. Contributions to the program are calculated at 23.5% of the employees' salaries above a fixed threshold amount and the employees contribute 2% to 8% while the Company contributes the balance contribution of 21.5% to 15.5%. The Company has no other material obligation for the payment of retirement benefits beyond the annual contributions under this program.

Fair value of financial instruments - The carrying amounts of certain financial instruments, including cash, accounts receivable, commercial notes receivable, other receivables, accounts payable, commercial notes payable, accrued expenses, and other payables approximate their fair values as of March 31 2007, because of the relatively short-term maturity of these instruments.

Reclassifications - Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had on effect on previously reported results of operations or retained earnings.

Recent accounting pronouncements - In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. SFAS 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes *Accounting Principles Board* (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* . Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123(R), Share-Based Payment, ("SFAS No. 123(R)"), using the modified prospective transition method. SFAS No. 123(R) requires equity-classified share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant and to be expensed over the applicable vesting period. Under the modified prospective transition method, share-based awards granted or modified on or after January 1, 2006, are recognized in compensation expense over the applicable vesting period. Also, any previously granted awards that are not fully vested as of January 1, 2006 are recognized as compensation expense over the remaining vesting period. No retroactive or cumulative effect adjustments were required upon The Company's adoption of SFAS No. 123(R) as the Company had not outstanding share awards as of the date of adoption and has not issued any share based awards during 2006.

Prior to adopting SFAS No. 123(R), The Company accounted for its fixed-plan employee stock options using the intrinsic-value based method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, ("APB No. 25") and related interpretations. This method required compensation expense to be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Had the Company elected the fair value provisions of SFAS No. 123(R), The Company's 2005 net earnings and net earnings per share would not have differed from the amounts actually reported as no share-based payments were made during this period.

In July 2006, the FASB released FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement 109, Accounting for Income Taxes ("FIN 48"). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. This standard was effective January 1, 2007 and its adoption did not have a material impact on our financial statements.

In September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin No. 108 (“SAB 108”). Due to diversity in practice among registrants, SAB 108 expresses SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. This standard was effective January 1, 2007 and its adoption did not have a material impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (“SFAS 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. The provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS 157 are effective for the fiscal years beginning after November 15, 2007. Therefore, we anticipate adopting this standard as of January 1, 2008. Management has not determined the effect, if any, the adoption of this statement will have on our financial condition or results of operations.

In September 2006, the FASB issued Statement No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"* ("SFAS No. 158"), an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires (a) recognition of the funded status (measured as the difference between the fair value of the plan assets and the benefit obligation) of a benefit plan as an asset or liability in the employer's statement of financial position, (b) measurement of the funded status as of the employer's fiscal year-end with limited exceptions, and (c) recognition of changes in the funded status in the year in which the changes occur through comprehensive income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure the plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. This Statement has no current applicability to the Company's financial statements. Management adopted this Statement on December 31, 2006 and the adoption of SFAS No. 158 did not have a material impact to the Company's financial position, results of operations, or cash flows.

In February 2007, the FASB issued Statement No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). This statement permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS 159 on its consolidated financial statements.

4. Concentrations of Business and Credit Risk

Substantially all of the Company's bank accounts are in banks located in the PRC and are not covered by any type of protection similar to that provided by the FDIC on funds held in U.S banks.

The Company is operating in China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between U.S. dollars and the Chinese currency RMB.

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and trade receivables, the balances of which are stated on the balance sheet. The Company places its cash in high credit quality financial institutions. Concentration of credit risk with respect to trade receivables is limited due to the Company's large number of diverse customers in different locations in China. The Company does not require collateral or other security to support financial instruments subject to credit risk.

For the three months ended March 31, 2007 and 2006, no single customer accounted for 10% or more of sales revenues.

As of March 31, 2007 the Company had no insurance coverage of any kind. Accrual for losses is not recognized until such time as an uninsured loss has occurred.

5. Cash and Cash Equivalents

As of March 31, 2007, Cash and cash equivalents consist of the following:

Cash and Cash Equivalents		
Cash on Hand	$	1,412
Bank Deposits		3,616,805
Total Cash and Cash Equivalents	$	3,618,217

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6. Property and Equipment

As of March 31, 2007, Property and Equipment consist of the following:

Property and Equipment		
Buildings	$	2,883,721
Transportation vehicles		133,040
Communication equipment and software		1,771,686
Furniture and fixtures		972,030
Total Property and Equipment		5,760,477
Less: Accumulated Depreciation		(745,592)
Property and Equipment, Net	$	5,014,884

For the three months ended March 31, 2007 and 2006 depreciation expenses totaled $153,120 and $81,128 respectively. For the three months ended March 31, 2007 and 2006, depreciation expenses totaling $46,995 and $25,150 were included in cost of goods sold, respectively.

As of March 31, 2007 the Company does not have any land use rights agreements with the PRC for the office buildings owned by the Company.

7. Goodwill

The Company through its subsidiary ZHLD owns 70% of Beijing Hua Yu Hui Zhong Technology Development Co., Ltd ("BHYHZ"). At the time of the formation of BHYHZ the Company made a 30% minority interest contribution of the initial capital of BHYHZ on behalf of the minority interest. This contribution has been reflected as $43,696 of goodwill at March 31, 2007.

8. Deferred revenue

Deferred revenue includes subscriber prepayments and education fee prepayments. Subscriber prepayments represents deferred revenue for the purchase of debit cards used to pay for the online downloading of education materials, including testing booklets, supplemental materials, and teaching video clips. The Company values the sales based on the actual occurrence of customer download. Therefore, the spare time between the purchase of debit cards and actual download is recorded under advances on accounts as deferred or unearned revenues to the Company. Once the download takes place, the amount is then transferred from advances on accounts to sales. Education fee prepayments represent customer prepayments for the service provided by the Company of teaching and educating the customers for their specific need at their desired education level. There are various levels existed for the customers to choose the best one that fits their individual needs. During the period, a great portion of advances were consumed and recognized as income, due to occurrences of several state-wide entrance exams for junior middle schools, high schools, and universities. During the period, more advances were paid by customers for the summer classes at the time of registration. As of March 31, 2007, the Company has $204,599 on subscriber prepayment and prepayments instruction fees.

9. Notes Payable

On September 29, 2006 the Company consummated a bridge financing pursuant to which the Company issued $1,530,000 aggregate principal amount of secured promissory notes and warrants to acquire 1,530,000 shares of common stock of the Company for an exercise price per share of $ 0.50.

Each Note accrues interest at the rate of 6% per annum from September 29, 2006 to March 29, 2007, with interest payable each month commencing from November 1, 2006 and terminating on March 1, 2007, as well as March 29, 2007, which is the maturity date for each Note. This note was paid in full subsequent to March 31, 2007.

The warrants issued were valued at $203,908 and were treated as a loan discount. The discount is being amortized to interest expense over the life of the notes payable. Loan discount amortized to interest expense for the three months ended March 31, 2007 was $81,563.

The Notes constitute senior indebtedness of the Company. The Notes are guaranteed by ZHLD, ZHTC and Harbin Zhonghelida Educational Technology Company Limited, and Xinqun Yu, the Chief Executive Officer and principal stockholder of the Company. The guarantee of Xinqun Yu is secured by his pledge of a number of shares of common stock of the Company to be determined from time to time as provided therein, with a value of $3,060,000. The number of shares initially pledged is 7,859,598.

10. Income Taxes

On September 15, 2004, China Education Alliance executed a Plan of Exchange with Zhong He Li Da Education Technology, Inc. ("ZHLD"), a corporation organized and existing under the laws of People's Republic of China. ZHLD applied to be a foreign invested company right after the merger, which business license has been approved as a foreign invested company on April 8, 2005. According to Chinese taxation policy, there is income tax exemption for 2 years and half for 3 years suitable to foreign invested company, advanced Technology Company or software Development Company. ZHLD is a company under the category of all three. Therefore the Company enjoys this income tax exemption policy from April 8, 2005 the date of approval as a foreign invested company. The formal documents about income tax exemption in advance issued on December 26, 2005. The Company received a 100% tax holiday as of December 31, 2006. On April 8, 2007 the Company's tax exemption will be reduced to 50% of the prevailing tax rate and will continue at this reduced rate for three additional years.

The tax holiday resulted in tax savings as follows:

	Three Months Ended March 31, 2007	2006
Tax savings	$ 81,512	$ 101,993
Benefit per share		
Basic	$ 0.00	$ 0.00
Diluted	$ 0.00	$ 0.00

The Company has a U.S net operating loss carryforward of approximately $495,000 as of December 31, 2006 which will begin expiring in 2025. Certain of these loss carryforward amounts may be limited due to the more than 50% change in ownership which took place during 2005. The deferred tax asset associated with these net operating loss carryforwards was fully reserved as of March 31. 2007.

11. Employee Retirement Benefits and Post Retirement Benefits

According to the Heilongjiang Provincial regulations on state pension program, both employees and employers have to contribute toward pensions. The pension contributions range from 8% that was contributed by individuals (employees) and the Company is required to make contributions to the state retirement plan based on 20% of the employees' monthly basic salaries. Employees in the PRC are entitled to retirement benefits calculated with reference to their basic salaries on retirement and their length of service in accordance with a government managed benefits plan. The PRC government is responsible for the benefit liability to these retired employees.

12. Loans from Shareholder

In connection with ABC Realty Merger (see Note 1), the shareholder, Xiqun Yu loaned the Company $100,000 at a 9% interest rate originally signed in December 2004. Annual amount of interest is payable together with principal. The shareholder paid all necessary overseas consulting and advising fees, lawyer fees, and accounting fees from period to period out of his own personal bank accounts in the United States due to the strict laws and regulations imposed by the Chinese government on out-going foreign currency wire transfers. The amount outstanding as of March 31, 2007 is $134,992. The loan from shareholder has the option to convert in two years into common stock of the Company at the market price on the date the Company incurred the loan.

13. Earnings Per Share

SFAS 128 requires a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations. The following securities were not included in the calculation of diluted earnings per share because their effect was antidilutive.

For the three months ended March 31, 2007, dilutive shares include outstanding warrants to purchase 3,060,000 shares of common stock at an exercise price of $0.50 and warrants to purchase 150,000 shares of common stock at an exercise price of $0.43.

The following reconciles the components of the EPS computation:

	(Income Numerator)	Shares (Denominator)	Per Share Amount
For the three months ended March 31, 2007:			
Net income	$ 1,002,913		
Basic EPS income available to common shareholders	$ 1,002,913	57,943,000	$ 0.02
Effect of dilutive securities:			
Warrants	—	2,627,972	
Diluted EPS income available to common shareholders	$ 1,002,913	60,570,972	$ 0.02
For the three mnths ended March 31, 2006:			
Net income	$ 679,952		
Basic EPS income available to common shareholders	$ 679,952	55,364,375	$ 0.01
Effect of dilutive securities:			
None	—	—	
Diluted EPS income available to common shareholders	$ 679,952	55,364,375	$ 0.01

14. Commitments and Contingencies

No government approvals are required to conduct the Company's principal operations, and the Company is not aware of any probable governmental regulation of our business sectors in the near future. Although management believes that the Company is in material compliance with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company's compliance with the applicable statutes, laws, rules and regulations will not be challenged by governing authorities or private parties, or that such challenges will not lead to a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company and its subsidiaries are self-insured, and they do not carry any property insurance, general liability insurance, or any other insurance that covers the risks of their business operations. As a result any material loss or damage to its properties or other assets, or personal injuries arising from its business operations would have a material adverse affect on the Company's financial condition and operations.

The Company is not involved in any legal matters arising in the normal course of business. While incapable of estimation, in the opinion of the management, the individual regulatory and legal matters in which it might involve in the future are not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

15. Common Stock

On March 7, 2007, the Company issued 30,000 shares of the Company's common stock valued at $15,900 for services.

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16. Subsequent Events

On May 8, 2007 the Company raised an additional $2,400,000 in funds through the issuance of convertible debt. A portion of these proceeds was used to pay the bridge note financing described in Note 9 above.

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

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included elsewhere herein.

The statements contained in this report include forward-looking statements about information of possible or assumed results of operations, business strategies, financing plans, competitive position and potential growth opportunities. Forward-looking statements include all statements that are not historical facts and are generally accompanied by words such as "may," "will," "intend," "anticipate," "believe," "estimate," "expect," "should" or similar expressions or the ne such words or expressions. These statements also relate to the Company's contingent payment obligations relating to acquisitions, future capital requirements, potential acquisitions and the Company's future development plans and are based on current expectations. Forward-looking statements involve various risks, uncertainties and assumptions. The Company's actual results may differ materially from those expressed in these forward-looking statements.

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate these estimates, including those related to useful lives of real estate assets, cost reimbursement income, bad debts, impairment, net lease intangibles, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurance that actual results will not differ from those estimates.

The discussion that follows is based on our consolidated results of operations for the three months ended March 31, 2007 and 2006.

OVERVIEW

China Education Alliance, Inc. ("CEDA"), formerly known as ABC Realty, Inc., is registered in the state of North Carolina, USA. The company's primary business activity is online education and on-site training services. It offers large scale of high-quality educational resources, and focuses on network education as well as on-site training. It is mainly operated through its wholly owned subsidiaries, Harbin Zhonghelida Education Technology Company Limited with registered website domain www.edu-chn.com for its online education and Heilongjiang Zhonghe Education Center for its on-site training services.

China Education Alliance, Inc. is dedicated to developing IT education industry and offer network solution for the education course of China. As an excellent education resources provider and operator, CEDA has a leading interactive business platform. It made full use of the network resources, and broke through the time and space limits of the traditional teaching methods and the face-to-face constraints on high-quality resources. Through the physical integrations and successful case spreading, it serves to change the uneven education resources distribution and create a better sharing of education resources across China. Meanwhile, it is promoting the Chinese education by opening schools and training agencies. It has shaped www.edu-chn.com to become a leading functional portal website, through the enforcement of the "on-site" training business. It has become a network and physical training agency.

As a provider and operator of high-quality education resources, China Education Alliances, Inc., based on its know-how of the educational market in China and its own strengths, currently takes the exam-oriented education in junior middle and high school as its core business. The company combined its superior network operating experience with rich education resources integrating experience, and takes the company's website as a platform to carry out services like “Famed Instructors Test Paper Store” through its service charging system by way of rechargeable learning cards. The learners can study via online classrooms or materials downloading for offline education. The company also provides on-site teaching services under the “Big Classroom of the Famed Instructors” program through its state-of-the-art training center.

www.edu-chn.com is a major functional education resources portal website in China. It provides plenty of client resources and strong brand promotion for business developing. Under the website, there are four modules, eight alliances, nine platforms and eight columns of interactive entertainment columns. It provides informative education products through the updated communication tools under www.edu-chn.com. It provides multi-media resources such as college school, middle school and elementary school test papers, courseware, and video data since 1980s, owning intellectual property rights for more than 300,000 sets of courseware and test papers. www.edu-chn.com is a major enterprise-class comprehensive education network platform which is based on the network video technology and the large data sources of elementary education resources. It provides online education and material download for customers by integrating “the big classroom of the famed instructors”. By the end of 2005, more than 3 million visitors had viewed the website.

Heilongjiang Zhonghe Education Center engages in the on-site training services and face-to-face tutorship under "The Big Classroom of the Famed Instructors" program and its VOD courseware resources. The usable area for the training center is about 3,400 square meters, with 17 modern classrooms that has capacity of 1,200 students. The courses covered each phase of compulsory education, and take the junior middle and high school as the key part.

The company is also providing new services to fulfill the market needs of online vocational training services. The core business for CEDA's vocation education will be in three main areas: vocation education enrollment, vocational certification, and career development for college graduates. CEDA has collaborated with the China Vocation Education Society in setting up www.360ve.com. This website will be the credible site for vocational education enrollment providing customers with reliable information regarding vocation training schools and vocation trainings both on-line and on-site. Pilot version of the www.360ve.com, a "high-quality vocational teaching resource supermarket", has been launched during this reporting period. CEDA leverages the existing resources of China Vocational Education Society which as members including provincial education bureau and more than one thousand vocational training schools across the country in carrying out its fast expansion strategic cooperation with the outstanding training agencies in local area, especially in the aspects of joint enrollment, resources exchanging and on-site training agencies establishments. The Company has carried out various level cooperation with over one thousand professors in their respective expertise fields, more than two thousand membership schools, over three thousand school principals, over fifty thousand school teachers, as well as over one hundred news media and twenty scholarly research organizations.

Through the authorizing of China Vocation Education Society, the vocational certificating center will contact and coordinate education ministry, labor ministry and other authorized government agencies to draw up benchmark for different education training sectors and organize performance evaluation. CEDA will become not only the provider of on-line vocational education but also the administrator for various vocational certifications. CEDA has currently received three authorizations in certification of Nutrition Analyst, Logistic Management, and Real Estate Planer.

CEDA's "Millions of College Students Employment Crossroad" program is developed in response to the high jobless rate for China's current college graduates. More than 35% of the college graduates can not find a job in the year of graduation. Many of the college graduates pursue vocational training after college education. CEDA's "Millions of College Students Employment Crossroad" program is to establish a long term training program for college students to build connections with corporations and obtain education programs prescribed by the hiring corporations.

RESULTS OF OPERATION

<u>Comparison of Three Months Ended March 31, 2007 and March 31, 2006</u>

Revenues increased by $1,738,824 or 129% in 2007 to $3,086,227 as compared to $1,347,403 in 2006, resulting in gross profit of $2,199,916 for 2007 as compared to gross profit of $853,652 in 2006. This was mainly attributable to the income generated from the training center, new programs, and advertising income. During 2006 and 2007, the Company has added several new programs for vocational studies and certification programs, which provides new source of income. Advertising income was increased as the result of the increased awareness of the Company's website, which resulted in more viewers coming to the Company's website, which enables the Company to increase its advertising income.

Cost of sales increased by $392,560 to $886,311 in 2007 as compared to $493,751 in 2006. Cost of sales as a percentage of sales decreased by 8% to 29% for 2007 as compared to 37% for 2006. The overall increase was primarily due to the increase of sales, which results from an increase in the cost of booklets and simulation tests to increase.

Gross profit margin increased by 8% for 2007 as compared to 2006. Gross profit margins vary from product to product depending on a number of factors including: (a) cost of materials; (b) overall market demand and individual customer demand; (c) cost of intellectual property rights; and (d) competitor pricing policies.

Selling expenses increased by $661,415 or 743% to $750,438 from $89,023 in 2006 due to the increase in agency fees associated with increased sales and advertising.

Administrative expenses increased by $128,068 or 433% to $157,663 in 2007 as compared to $29,595 in 2006. The increase is due primarily to an increase in salaries due to the overall growth of the business of the Company.

LIQUIDITY AND CAPITAL RESOURCES

The Company's assets primarily consist of its operating subsidiaries, marketable properties for sale, cash and cash equivalents.

Cash and Cash Equivalents increased by 134% or $2,071,558 to $3,618,217 at March 31, 2007 as compared to $1,546,659 at march 31, 2006. The increase in cash and cash equivalents was mainly due to bank deposits fund generated from sales receipts during the period.

The Company's current ratio at December 31, 2006 was 2.09. Its primary sources of funds include cash balances, cash flow from operations, the proceeds of prepayments made by customers or offering of equity. The management endeavors to ensure that the funds are always available to take advantage of new investment opportunity and they are sufficient to meet future liquidity and capital needs. Management considers current working capital and borrowing capabilities adequate to cover the Company's planned operating and capital requirements. For future operating, management plans to finance $6 million through equity financing in the international capital market.

There was no restrictive bank deposits pledged as of March 31, 2007. Therefore, the Company did not have to maintain any minimum balance in the relevant deposit account as security.

Prepaid expense increased by $778,537 or 685% to $892,221 as of March 31, 2007 compared to $113,684 as of March 31, 2006. Prepaid expenses are primarily comprised of advance payments made for services to teachers for online materials and videos, prepaid rent expense, and prepaid advertising.

Accounts payable increased by $265,667 or 1,204% to $287,727 as of March 31, 2007 as compared to $22,060 as of March 31, 2006 was mainly attributable to the increase operations during the year that resulted in an increase in accrued taxes payable.

Advances by customers decreased by $328,679 or 62% to $204,599 as of March 31, 2007 as compared to $533,278 in 2006. The increase was attributable to the usage of the prepaid debit card system. Advances on accounts are deferred revenues prepaid by customers for the future download of materials thru company website.

Notes payable recorded $1,530,000 as of March31, 2007 was attributable to the bridge loans that the Company entered into with third parties on September 29, 2006. The bridge loans were paid off subsequent to March 31, 2007.

INDUSTRY AND MARKET OUTLOOK

The education resources distribution is uneven in different areas across China, most of the excellent teachers are in the developed areas and key middle schools. Among the 15,998 high schools in China, 847 of them are key schools, which account for 5.29. Most of the excellent teachers' resources are in the key high schools, the ratio of college entrance of key high school is higher than 90%, but the national average ratio of college entrance is about 55%.

Most of high-quality resources of China elementary education often centralize in a few of key schools, and its amount and the scale are quite limited. Because the college entrance rate of key high schools is higher than that of the ordinary high schools, so, each student expects to enter the key high school where they can obtain the most excellent teaching resources. The students who have poor performance but want to enter into the key high school must pay additional "school selecting fees". According to the Chinese Nanfang Daily, in China the school selecting fees was more than RMB 27 billion in 2005, which is over $3 billion. There are even about 20% students entering into high school through sponsorship and school selecting fee in China. Thus it can be noted that the China elementary and secondary education is in urgent need for high-quality education resources.

On the whole, the China online education market is still at the preliminary stage. In 2004, China online education market turnover reached RMB 14.4 billion, about $1.8 billion. As China becomes more information-oriented, while people become increasingly aware of the network' function, the size of the online education market will increase dramatically. iResearch, a well-known market consulting firm, forecasts the China online market turnover in 2005, 2006, and 2007 will reach RMB 18.1 billion, RMB 23.3 billion, and RMB 29.6 billion respectively.

According to the China Network Information Center's statistics as of December 31, 2005, the total number of internet users in China was 111 million, ranked second over the world, a increase of 17 million compared with the same period a year earlier or 18.1% higher. The students account for 35.7%, about 39.627 million (objects of exam-oriented education); company staff accounted for 29.70%, about 32.967 million (objects of profession education); the jobless accounted for 6.9%, about 7.657 million (objects of vocational education); the China online education market is of great potential.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2007 and March 31, 2006, the Company had no material derivative instruments. The Company may enter into derivative financial instrument transactions in order to mitigate its interest rate risk on a related financial instrument in the future.

The Company’s balance sheet includes amount of assets and liabilities whose fair values are subject to market risk. Market risk is the risk of loss arising from adverse changes in market prices or interest rates. Generally, the Company’s borrowing is short to medium term in nature and therefore approximate fair value. The Company currently has interest rate risk as it related to its fixed maturity mortgage participation interest. The Company seeks to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs by closely monitoring its interest rate debt.

The Company’s equity risk as it related to its marketable equity securities, and foreign currency risk as it relates to investments denominated in foreign currencies. The Company and its subsidiaries are mainly located in China, there were no significant changes in exchange rates, and however, unforeseen developments may cause a significant change in exchange rates. The Company is subject to commodity price risks arising from price of construction materials.

The Company’s expansion risk is in connection with the rapid development of Internet and growth of its users. Online learning will become one of the dominant and efficient ways of learning for students. This is the main risk for business development, considering the habits of customers and the popularization of broadband business. The management team worked out a solution by direct communicating with students in forefront, lightening up the idea that training is far beyond face-to-face teaching, various of ways should be occupied, such as downloading learning, online learning and other ways to attract students to use, familiar with and rely on the internet and services, including but not limited to individual service and interactive entertainment service of www.edu-chn.com.

The Company’s competition risk lies with its education resources. As the provider of education resource, the high-quality education resource is the core competitive power for education enterprises. Currently, Chinese high-quality elementary education resource is not balanced on a provincial-basis and locally focused featuring key schools. The schools that have the local education resource can open the local learning website, and have strong competitive power. CEDA will duplicate the regional model in national market, with the strong internet operational capability; it will build the national leading educational service system and top brand of education service; integrate the advanced resource of local education organizations by united means and provide partial educational resource for the public schools. Under the principle of providing operating platform, CEDA plans to build the regional educational organizations, and reach a win-win situation with public schools, and to realize the CEDA’s ambition of sharing high-grade resources.

ITEM 3. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer/President and its Chief Financial Officer/principal accounting officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for the Company. Such officers have concluded (based upon their evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in this report is accumulated and communicated to the Company's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure. The Certifying Officers also have indicated that there were no significant changes in the Company's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and that there were no corrective actions necessary with regard to any significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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

The Company issued 30,000 shares of restricted common stock to TaylorRafferty Associates Inc. as compensation for its investor relations and financial media program as described in *Item 5. Other Information*.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEMS 5. OTHER INFORMATION

TaylorRafferty Associates Inc.

On January 10, 2007, the Board of Directors authorized the issuance of 50,000 shares of restricted common stock to TaylorRaffery Associates Inc. (“TR”) pursuant to an investor relations contract entered into with TR dated November 1, 2006. Under the terms of the contract, the Company agreed to issue 30,000 shares of restricted common stock upon the commencement of the contract, 10,000 shares by July 31, 2007, and 10,000 shares by October 31, 2007. On March 5, 2007, the TR contract commenced and the Company issued 30,000 shares of restricted common stock to TR pursuant to the contract terms in reliance upon Section 4(2) under the Securities Act of 1933.

Change in Registrant’s Certifying Accountant

The Company terminated and replaced e-Fang Accountancy Corp., & CPA as its independent registered public accounting firm with Murrell, Hall, McIntosh & Co., PLLP, effective January 4, 2007, as described in the Company’s Form 8-K current report filed January 16, 2007 which is incorporated herein by reference.

ITEM 6. EXHIBITS

Exhibits.

3.1	Articles of Incorporation are hereby incorporated herein by reference to Exhibit 3.1 to the Form SB-2 registration statement (File No. 333-101167) of the Company
3.2	Articles of Amendment Business Corporation are hereby incorporated by reference to Exhibit 3.2 to the Form SB-2 registration statement (File No. 333-101167) of the Company
3.3	Articles of Amendment Business Corporation filed November 17, 2004, changing the name of the Company from ABC Realty Co. to China Education Alliance, Inc.
3.4	Bylaws of the Company are hereby incorporated herein by reference to Exhibit 3.3 to the Form SB-2 registration statement (File No. 333-101167) of the Company
10.1	Product Commission Process Contract dated March 2, 2006, with Tianjin Huishi Printing Products Co., Ltd. is incorporated by reference herein to Exhibit 10.6 to the Form 10-KSB annual report of the Company for its fiscal year ended December 31, 2005
10.2	

	Employment contract with Liansheng Zhang effective February 21, 2006 is incorporated by reference herein to Exhibit 10.7 to the Form 10-KSB annual report of the Company for its fiscal year ended December 31, 2005
10.3	Consulting Agreement with Conceptual Management Limited dated March 20, 2006 is incorporated by reference herein to Exhibit 10.8 to the Form 10-KSB annual report of the Company for its fiscal year ended December 31, 2005
16.2	Letter dated March 16, 2006, of former independent certified public accountants, Jimmy C.H. Cheung & Co. is hereby incorporated herein by reference to Exhibit 16.1 to the Form 8-K/A current report of the Company filed on March 20, 2006
23	List of subsidiaries is incorporated herein by reference to Exhibit 23 to the Form 10-KSB annual report of the Company for its fiscal year ended December 31, 2006
31.1	Certification of Xi, Qun Yu
31.2	Certification of Wang, Chunqing
32	Certification of Xi Qun Yu and Wang Chunqing

SIGNATURES

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

China Education Alliance, Inc.

Date: May 14, 2007	By:	/s/ Xiqun Yu
		Xiqun Yu Chief Executive Officer and President
	By:	/s/ Chunqing Wang
		Chunqing Wang Chief Financial Officer

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