CHINA EDUCATION ALLIANCE INC.
Form 10QSB
August 14, 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 June 30, 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.)

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

001-86-451-8233-5794
(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

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 August 10, 2007.

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

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PART I. FINANCIAL INFORMATION

China Education Alliance, Inc. and Subsidiaries
Condensed Consolidated Balance Sheet
June 30, 2007
(Unaudited)

ASSETS

Current Assets		
Cash and cash equivalents	$	8,315,833
Prepaid expenses		827,955
Total current assets		9,143,788
Property and equipment, net		5,504,230
Franchise rights		632,208
Goodwill		43,696
	$	15,323,922
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$	448,024
Deferred revenues		1,157,791
Loan from shareholder		133,391
Notes payable		3,400,000
Total current liabilities		5,139,206
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		2,986,174
Accumulated other comprehensive income		526,429
Retained earnings		6,614,148
Total stockholders' equity		10,184,716
	$	15,323,922

See accompanying summary of accounting policies and notes to financial statements.

China Education Alliance, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Three and Six Months Ended June 30, 2007 and 2006
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenues				
Online education revenues	$ 3,717,985	$ 1,752,959	$ 6,344,653	$ 2,692,462
Training center revenues	631,770	413,895	1,091,329	821,795
Total revenue	4,349,755	2,166,854	7,435,982	3,514,257
Cost of Goods Sold				
Online education costs	619,870	466,445	1,287,617	793,549
Training center costs	227,525	197,167	446,089	363,814
Total cost of goods sold	847,395	663,612	1,733,706	1,157,363
Gross Profit				
Online education gross profit	3,098,115	1,286,514	5,057,036	1,898,913
Training center gross profit	404,245	216,728	645,240	457,981
Total gross profit	3,502,360	1,503,242	5,702,276	2,356,894
Operating Expenses				
Selling expenses	1,088,728	118,870	1,839,166	207,893
Administrative	438,003	78,636	595,666	108,231
Depreciation and amortization	107,052	6,803	213,177	62,781
Total operating expenses	1,633,783	204,309	2,648,009	378,905
Other Income (Expense)				
Other Income	55,494	-	55,494	-
Interest income	10,459	4,026	16,086	4,922
Interest expense	(388,582)	-	(493,079)	-
Total other income (expense)	(322,629)	4,026	(421,499)	4,922
Net Income Before Provision for Income Tax	1,545,948	1,302,959	2,632,768	1,982,911
Provision for Income Taxes				
Current	152,838	-	236,745	-
Deferred	-	-	-	-
	152,838	-	236,745	-
Net Income	$ 1,393,110	$ 1,302,959	$ 2,396,023	$ 1,982,911
Basic Earnings Per Share	$ 0.02	$ 0.02	$ 0.04	$ 0.03
Basic Weighted Average Shares Outstanding	57,965,000	57,915,000	57,965,000	57,915,000

Diluted Earnings Per Share	$	0.02	$	0.02	$	0.04	$	0.03
Diluted Weighted Average Shares Outstanding		60,917,777		57,915,000		60,917,777		57,915,000
The Components of Other Comprehensive Income								
Net Income	$	1,393,110	$	1,302,959	$	2,396,023	$	1,982,911
Foreign currency translation adjustment		(210,170)		(10,533)		48,596		8,534
Comprehensive Income	$	1,182,940	$	1,292,426	$	2,444,619	$	1,991,445

See accompanying summary of accounting policies and notes to financial statements.

China Education Alliance, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the SIx Months Ended June 30, 2007 and 2006
(Unaudited)

		2007		2006
Cash flows from operating activities				
Net Income	$	2,396,023	$	1,982,911
Adjustments to reconcile net cash provided by operating activities				
Depreciation and amortization		383,734		78,477
Amortization of loan discount		420,639		-
Stock issued for services		15,900		-
Warrants issued for services		12,371		-
Net change in assets and liabilities				
Inventories				1,624
Other receivables		54,723		8,315
Prepaid expenses and other		493,493		(1,865)
Accounts payable and accrued liabilities		236,875		23,410
Advances by customers		848,425		26,001
Net cash provided by operating activities		4,862,183		2,118,873
Cash flows from investing activities				
Purchases of fixed assets		(500,732)		(1,955)
Net cash (used in) investing activities		(500,732)		(1,955)
Cash flows from financing activities				
Payments on loans		(1,330,000)		
Proceeds from loans		3,400,000		
Proceeds from loan from shareholder		(2,553)		52,065
Net cash provided by financing activities		2,067,447		52,065
Effect of exchange rate		48,596		8,534
Net increase in cash		6,477,494		2,177,517
Cash and cash equivalents at beginning of year		1,838,339		597,444
Cash and cash equivalents at end of year	$	8,315,833	$	2,774,961
Supplemental disclosure of cash flow information				
Interest paid	$	59,588	$	-

Taxes paid	$	-	$	-
Stock issued for services	$	15,900	$	-
Value of warrants issued for services	$	12,371	$	-
Value of warrants from convertiable debt	$	339,076	$	-

See accompanying summary of accounting policies and notes to financial statements.

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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 main function for the 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. 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 the 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% interest in BHYHZ that the Company's transferred to The Vocational Education Guidance Center of China for no consideration was treated as goodwill in consolidation.

The Company's online education business has established supplemental education and test preparation material for grades kindergarten through high school.

2. Basis of Preparation of Financial Statements

ZHLD, Zhonghe Education Training Center and Beijing Hua Yu Hui Zhong Technology Developments Co., Ltd. maintains its books and accounting records in Renminbi ("RMB") and the financial statements are in United States dollars.

The accompanying condensed consolidated financial statements have been prepared in compliance with Rule 310 of Regulation S-B 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 interim 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 and six months ended June 30, 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 affected 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 ("PRC")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 June 30, 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 six months ended June 30, 2007.

Foreign Currency - The Company's principal country of operations is in The People's Republic of China. The financial position and results of operations of the Company are recorded in RMB 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 tracks usage of the debit card and records revenue when the debit card is used.

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 card is used. 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 rent. At June 30, 2007, advertising $389,547, prepayments to teachers for online materials totaled $264,239, prepayment of rent expense totaled $127,101, and other prepaid expenses were $47,068.

Goodwill - In connection with the organization of BHYHZ the Company transferred to an unrelated non-profit, quasi-governmental entity for no consideration a 30% ownership interest in the contributed capital of BHYHZ. The value of the transferred ownership is reflected as goodwill on the consolidated financial statements. At June 30, 2007, goodwill relating to 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 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 tuition 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 six months ended June 30, 2007 and 2006 were $193,411, and $24,980, 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 do it's classification as a "Wholly Foreign Owned Enterprise." This exemption ended on December 31, 2006, at which time ZHLD qualifies under the current tax structure for a 50% reductions in the statutory enterprise income tax rates for the following 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 the receipt of payment is probable. When the receipt of payment 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 June 30, 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 no 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. FIN 48 is effective on January 1, 2007. The Company does not expect its implementation to be material to 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. SAB 108 is effective on January 1, 2007. The Company does not believe SAB 108 will have a material impact on our results from operations or financial position.

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 adopts this Statement on January 1, 2007, and it is anticipated the adoption of SFAS No. 158 will 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 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; however, such funds are not insured. The Company sells its products to students who purchase debit cards which can be used to download the Company’s products. Since the Company is paid in advance, it has no receivables and no significant credit risk.

For the three and six months ended June 30, 2007 and 2006, no single customer accounted for 10% or more of revenues.

As of June 30, 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 June 30, 2007, Cash and cash equivalents consist of the following:

Cash and Cash Equivalents		
Cash on Hand	$	983
Bank Deposits		8,314,850
Total Cash and Cash Equivalents	$	8,315,833

6. Property and Equipment

As of June 30, 2007, Property and Equipment consist of the following:

Property and Equipment		
Buildings	$	2,931,827
Transportation vehicles		135,260
Communication equipment and software		2,242,393
Furniture and fixtures		1,100,493
Total Property and Equipment		6,409,973
Less: Accumulated Depreciation		(905,744)
Property and Equipment, Net	$	5,504,229

For the three and six months ended March 31, 2007 and 2006 depreciation expenses totaled $155,064, $308,184, $(2,651) and $78,477 respectively. For the three and six months ended June 30, 2007 and 2006, depreciation expenses totaling $48,012, $95,007, $(9,454) and $15,696 were included in cost of goods sold, respectively.

As of June 30, 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 BHYHZ. At the time of the formation of BHYHZ the Company transferred a 30% interest in the initial capital of BHYHZ to a nonaffiliated government entity. The value of this interest at the time of the transfer has been reflected as $43,696 of goodwill at June 30, 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. The Company recognizes revenue when the card is used to download material. Therefore, during the period between the purchase and use of debit cards, the unused portion of the debit card is treated as deferred revenues to the Company. Education fee prepayments represent payments for tuition for the Company’s training schools, which is amortized over the term of the course. As of June 30, 2007, the Company had deferred revenue of $1,157,791.

9. Notes Payable

On September 29, 2006 the Company raised gross proceeds of $1,530,000 from the issuance and sale of $1,530,000 aggregate principal amount of secured promissory notes and warrants to purchase 1,530,000 shares of common stock of the Company for an exercise price per share of $ 0.50. The notes, which bear interest at 6% per annum, had a maturity date of March 29, 2007. The notes have been paid in full.

The warrants issued were valued at $203,908 and was treated as a loan discount. The discount was amortized to interest expense over the life of the notes payable. Loan discount amortized to interest expense for the six months ended March 31, 2007 was $81,563. At June 30, 2007, the discount had been fully amortized.

On May 8, 2007, the Company raised, in two installments, a total of $3,400,000 through the issuance of convertible debt in the aggregate principal amount of $3,400,000. A portion of these proceed was used to pay the bridge note financing described above. In connection with the agreement, the Company’s board of directors approved an amendment to the Company’s certificate of incorporation to create a class of preferred stock and plans to hold a stockholders’ meeting to seek approval of the certificate of amendment. The board also approved the terms of a new series of preferred stock to be designated as the series A convertible preferred stock upon the filing of the amendment

to the Company's articles of incorporation.

The notes are convertible into either:

- an aggregate of (i) 9,189,189 shares of series A preferred stock, with each share being convertible into one share of common stock, subject to adjustment, (ii) five-year common stock purchase warrants to purchase 2,206,897 shares of common stock at $.50 per share, (iii) 8,500,000 shares of common stock at $.69 per share, (iv) 2,043,103 shares of common stock at $.80 per share, (v) five-year common stock purchase warrants to purchase 793,103 shares of common stock at $1.00 per share, or

- if the notes are converted prior to the creation of the series A preferred stock, an aggregate of (i) 9,189,189 shares of common stock, (ii) five-year common stock purchase warrants to purchase 2,206,897 shares of common stock at $.50 per share (iii) 8,500,000 shares of common stock at $.69 per share, (iv) 2,043,103 shares of common stock at $.80 per share, (v) five-year common stock purchase warrants to purchase 793,103 shares of common stock at $1.00 per share, or

- if the Company does not amend its articles of incorporation to authorize the issuance of preferred stock and file a certificate of designation setting forth the rights of the holders of the series A preferred stock by September 30, 2007, the maturity date of the notes, as required by the securities purchase agreement pursuant to which the notes were issued and the terms of the notes, 24,939,188 shares of common stock.

The notes provide for interest at 3% per annum. However, upon the conversion of the notes, the Company is required to issue the stock and warrants based on the principal amount of the notes. There is no adjustment for the interest. Payment of the notes is subordinated to payment of senior indebtedness, which is defined as indebtedness and obligations to banks, insurance companies and other institutional lenders.

Pursuant to the securities purchase agreement, the Company is to place in escrow 2,833,333 shares of common stock and Mr. Xiqun Yu, the Company's chief executive officer and principal shareholder, shall place in escrow 2,833,333 shares of common stock. Upon the filing of the certificate of amendment and the certificate of designation, the Company will issue a certificate for 2,833,333 shares of series A preferred stock in exchange for the certificate for 2,833,333 shares of common stock, and the Company shall cancel the returned shares of common stock.

If the Company's pre-tax income for 2007 is less than $0.06647 per share, on a fully-diluted basis, the percentage shortfall shall be determined by dividing the amount of the shortfall by the target number. If the percentage shortfall is equal to or greater than 33 1/3%, then the 2,833,333 shares of series A preferred stock shall be delivered to the investors and the 2,833,333 shares of common stock placed in escrow by Mr. Yu shall be delivered to the Company, the Company shall cancel such shares. If the percentage shortfall is less than 33 1/3%, the escrow agent shall

- (i) deliver to the investors such number of shares of series A preferred stock as is determined by multiplying the percentage shortfall by 2,833,333 shares, and (ii) deliver to the balance of the 2,833,333 shares of series A preferred stock to us, and the Company shall cancel such shares, and

- (i) deliver to us such number of shares of common stock as is determined by multiplying the percentage shortfall by 2,833,333 shares, and the

Company shall cancel such shares, and (ii) deliver to Mr. Yu the balance of the 2,833,333 shares that were not transferred to us.

The warrants have a term of five years, and expire in May 2012. The warrants provide a cashless exercise feature; however, the holders of the warrants may not make a cashless exercise during the twelve months commencing on date of issuance and thereafter only if the underlying shares are not covered by an effective registration statement.

The warrants provide that the exercise price of the warrants may be reduced by up to 50% if the Company's pre-tax income per share of common stock, on a fully-diluted basis, is less than $0.06647. Pre tax-income is defined as income before income taxes determined in accordance with generally United States generally accepted accounting principles ("GAAP") plus (a) any charges relating to the transaction contemplated by the purchase agreement and the registration rights agreement, minus (b) the amount, if any, by which all non-recurring losses or expenses exceed all non-recurring items or income or gain. Pre-tax income shall not be adjusted if all non-recurring items of income or gain exceed all non-recurring losses or expenses. Items shall be deemed to be non-recurring only if they qualify as non-recurring pursuant to GAAP. For determining pre-tax income per share, all shares which are outstanding or which may be issuable upon exercise or conversion of options, warrants and other convertible securities are deemed to be outstanding, regardless of whether the shares would be counted for purposes of computing diluted earnings per shares under GAAP. An adjustment in the warrant exercise price does not affect the number of shares issuable upon exercise of the warrants.

The securities purchase agreement also requires us to have a board of directors with a majority of independent directors, an audit committee comprised solely of independent directors and a compensation committee with a majority of its member being independent directors.

The Company and the investors entered into a registration rights agreement pursuant to which the Company agreed to file, within 60 days after the closing, a registration statement covering the common stock issuable upon conversion of notes and the series A preferred stock and exercise of the warrants. The Company's failure to meet this schedule and other timetables provided in the registration rights agreement would result in the imposition of liquidated damages, which are payable through the issuance of additional shares of series A preferred stock at the rate of 2,130 shares of series A preferred stock for each day, based on the proposed registration of all of the underlying shares of common stock, with a maximum of 900,000 shares. The registration rights agreement also provides for additional demand registration rights in the event that the investors are not able to register all of the shares in the initial registration statement.

The investors have a right of first refusal on future financings.

Except as expressly provided in the notes or the warrants, no investor may convert the notes or the series A preferred stock into shares of common stock or exercise the warrants to the extent that such conversion or exercise would result in beneficial ownership by such investor and its affiliates of more than 4.9% of the then outstanding number of shares of common stock on such date. Beneficial ownership is determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulation 13d-3 thereunder. This provision cannot be modified.

The warrants associated with the conversion feature of the notes were valued at $339,076 and recorded to interest expense as loan discount during the six months ended June 30, 2007.

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 as 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 approval as a foreign wholly owned enterprise. 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. Starting January 1, 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 years.

The tax holiday resulted in tax savings as follows:

	Six Months Ended June 30, 2007	2006
Tax savings	$ 197,458	$ 297,437
Benefit per share		
Basic	$ 0.00	$ 0.01
Diluted	$ 0.00	$ 0.01

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 June 30, 2007.

11. Effect of Adoption of FASB Interpretation No. 48 (Fin 48), "Accounting for Uncertainly in Income Taxes"

In 2006, the Financial Accounting Standards Board (FASB) issued FIN 48, which clarifies the application of SFAS 109 by defining a criterion that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and provides guidance on measurement, derecognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the transition provisions, the company adopted FIN 48 effective January 1, 2007.

China Education Alliance, a North Carolina corporation, is a foreign enterprise for Chinese taxation purposes. As a wholly owned foreign subsidiary, ZHLD is entitled to a Tax Holiday. ZHLD was granted a tax exemption from the PRC on April 8, 2005 following the merger with China Education Alliance. This exemption, which covered the years ended December 31, 2005 and 2006, expired on December 31, 2006. However, under present law, the Chinese subsidiary will enjoy a 50% tax exemption for 2007, 2008 and 2009.

The Company recognizes that virtually all tax positions in the PRC are not free of some degree of uncertainty due to tax law and policy changes by the state. However, the Company cannot reasonably quantify political risk factors and thus must depend on guidance issued by current state officials.

Based on all known facts and circumstances and current tax law, the company believes that the total amount of unrecognized tax benefits as of June 30, 2007, is not material to its results of operations, financial condition or cash flows. The company also believes that the total amount of unrecognized tax benefits as of June 30, 2007, if recognized, would not have a material effect on its effective tax rate. The Company further believes that there are no tax positions for which it is reasonably possible, based on current Chinese tax law and policy, that the unrecognized tax benefits will significantly increase or decrease over the next 12 months producing, individually or in the aggregate, a material effect on the company's results of operations, financial condition or cash flows.

12. 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 employees contribute 8% and the Company contributes 22% of the employees' monthly base salaries. Employees in the PRC are entitled to retirement benefits calculated with reference to government mandated society's average base salaries at the time of retirement and their length of service in accordance with a government managed benefits plan. The PRC government is responsible for paying the benefits to the retired employees.

13. Loans from Shareholder

In December 2004, in connection with ABC Realty Merger (see Note 1), the Company's principal shareholder and chief executive officer, Xiqun Yu loaned the Company $100,000 at an interest rate of 9% per annum. loan was made to enable the Company to pay its expenses relating to the reverse acquisition in United States dollars. The amount outstanding as of June 30, 2007 is $133,391, which is treated as a demand loan.

14. Earnings Per Share

SFAS 128 requires a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations. The There were no dilutive options and warrants outstanding for the three and six months ended June 30, 2006.

For the three and six months ended June 30, 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 June 30, 2007:					
Net income	$	1,393,110			
Basic EPS income available to common shareholders	$	1,393,110	57,965,000	$	0.02
Effect of dilutive securities:					
Warrants		-	2,952,777		
Diluted EPS inclome available to common shareholders	$	1,393,110	60,917,777	$	0.02
For the three months ended June 30, 2006:					
Net income	$	1,302,959			
Basic EPS income available to common shareholders	$	1,302,959	57,915,000	$	0.02

Effect of dilutive securities:					
None		-	-		
Diluted EPS income available to common shareholders	$	1,302,959	57,975,000	$	0.02

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		Income (Numerator)	Shares (Denominator)		Per Share Amount
For the six months ended June 30, 2007:					
Net income	$	2,396,203			
Basic EPS income available to common shareholders	$	2,396,203	57,965,000	$	0.04
Effect of dilutive securities:					
Warrants		--	2,952,777		
Diluted EPS income available to common shareholders	$	2,396,203	60,917,777	$	0.04
For the three months ended June 30, 2006:					
Net income	$	1,982,911			
Basic EPS income available to common shareholders	$	1,982,911	57,915,000	$	0.03
Effect of dilutive securities:					
None		--	--		
Diluted EPS income available to common shareholders	$	1,982,911	57,915,000	$	0.03

15. Commitments and Contingencies

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.

16. Common Stock

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

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

The following discussion of the results of our operations and financial condition should be read in conjunction with our financial statements and the related notes, which appear elsewhere in this report.

Statements in this report may be “forward-looking statements.” Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and are likely to, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those described above and those risks discussed from time to time in this report, including the risks described under “Risk Factors” in our form 10-KSB for the year ended December 31, 2006, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report and in our 10-KSB for the year ended December 31, 2006, and any risks described in any other filings we make with the SEC. In addition, such statements could be affected by risks and uncertainties related to the ability to conduct business in China, demand, including demand for our products resulting from change in the educational curriculum or in educational policies, our ability to raise any financing which we may require for our operations, competition, government regulations and requirements, pricing and development difficulties, our ability to make acquisitions and successfully integrate those acquisitions with our business, as well as general industry and market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this report.

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.

Overview

Our principal business is the distribution of educational resources through the Internet. Our website, www.edu-chn.com, is a comprehensive education network platform which is based on network video technology and large data sources of education resources. We have a data base comprised of such resources as test papers for secondary education courses as well as video on demand. Our data base includes more than 300,000 exams and test papers and courseware for secondary and elementary schools. We also offer, though our website, video on demand, which includes tutoring of past exam papers and exam techniques.

We also provide on-site teaching services in Harbin, where we have a 36,600 square foot training facility with 17 classrooms that can accommodate 1,200 students. These classes complement our on-line education services. The courses cover primarily the compulsory education curriculum of junior, middle and high school. We charge tuition for these classes

We generate revenue through our website by selling prepaid debit cards to our subscribers. These debit cards permit the subscriber to download materials from our website over a specified period, usually one year. We recognize revenue from the debit cards when the students use the debit cards to purchase our products. To the extent that the debit cards expire unused, we recognize the remaining balance of the debit card at that time. We also recognize revenue from our online education business through the sale of advertising on our website. We recognize revenue from our training centers classes ratably over the term of the course, and we recognize revenue from face-to-face tutorials to students are our training center and face-to-face information technology training courses.

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The laws of China provide give the government broad power to fix and adjust prices. We need to obtain government approval in setting our prices for classroom coursework and tutorials, which affects our revenue in our training center business. Although the sale of educational material over the Internet is not presently subject to price controls, we cannot give you any assurance that they will not be subject to controls in the future. To the extent that we are subject to price control, our revenue, gross profit, gross margin and net income will be affected since the revenue we derive from our services will be limited and we may face no limitation on our costs. Further, if price controls affect both our revenue and our costs, our ability to be profitable and the extent of our profitability will be effectively subject to determination by the applicable Chinese regulatory authorities.

Because students who purchase our on-line programs purchase debit cards for the programs that they use and students who enroll in our training classes pay their tuition before starting classes, we do not have significant accounts receivable. At June 30, 2007, we had no accounts receivable.

Our prepaid expenses account for a significant portion of our current assets - approximately $828,000, or 9% of current assets at June 30, 2007. Prepaid expenses are primarily comprised of advance payments made for advertising, services to teachers for online materials and video and prepaid rent. At June 30, 2007, prepayment of advertising was approximately $390,000, prepayment to teachers for the development of educational materials was approximately $264,000, prepayment of rent expense was $127,000, and other prepaid expenses were approximately $47,000. We amortize the prepayments to teachers over three months, which is the estimated life of the testing materials. The prepaid rent related to our Beijing office and dormitory rental for our training center. The prepayment to teachers decreases as the materials are delivered and the prepaid rent decreases ratably during the terms of the leases.

As a result both manner in which we recognize revenue and the manner that we expense the cost of our materials, there is a difference between our cash flow and both revenue and cost of revenue.

In our on-line education business, the principal component of cost of sales is the cost of obtaining new material to offer students as we increase the available material as well as depreciation related to computer equipment and software as well as direct labor cost. This business generates a relatively high gross margin, which was 79.7% for the six months ended June 30, 2007 and 70.5% for the six months ended June 30, 2006. The gross margin is affected by the payments we have to make to the teachers for the materials. In our training center business, the principal components of cost of sales are faculty and the amortization of intangible assets. This business generates a lower gross margin than the online education business, which was 59.1% for the six months ended June 30, 2007 and 55.7% for the six months ended June 30, 2006. The tuition that we charge our students at our training center is subject to government approval. As a result, we may not be able to pass on to our students any increases in costs we incur, including any increases in costs we incur, including increased costs of faculty. Our gross margin in the training center is also affected by the size of our classes.

Our on-line products and our training services are dependent upon the government's education policies. Any significant changes in curriculum or testing methods could render all or a significant portion of our library of test papers and our training center obsolete and we may have to devote substantial resources in adapting to the changes.

We have recently added a platform for training agencies and schools to offer their services, and we offer job search guidances and career planning courses to college graduates through this platform. This business has become part of our online education business, since it is presently largely an Internet-based activity.

Because the purchase of both our on-line and our training center is made from discretionary funds, our business is dependent upon both the economy of China and the perception of students that they will benefit from improving their ability to perform well on standardized tests which are given before middle school, high school and university.

In December 2006, we acquired, for approximately $1.0 million all of the fixed assets and franchise rights of Harbin Nangang Compass Computer Training School ("Compass Training School"), which was engaged in the business of providing on-site training on network engineering and ACCP software engineering to computer vocational training school students. As a result of this acquisition, we became the exclusive partner of Beida Qingniao APTEC Software Engineering within Heilongjiang Province in China for vocational training. The acquisition includes six classrooms for on-site education classes, six computer rooms and patented course materials. Compass Training School currently has two principal education programs focused on network engineering and ACCP software engineering.

We own 70% of Beijing Hua Yu Hui Zhong Technology Development Co., Ltd, which was formed on September 30, 2006. At the time of its organization, we transferred a 30% interest in this subsidiary to The Vocational Education Guidance Center of China, a non-profit, quasi-government entity, for no consideration in order to enable us to work with the Guidance Center's network to expand our business. The value of this 30% interest, which is based on our cost, is treated as goodwill.

We are in the process of introducing new services aimed at the students who want to go to vocational school. These students include high school students who do not continue their education at universities and university graduates who are not able to find employment. The core business our vocation education will be in three main areas: vocation education enrollment, vocational certification, and career development for college graduates. We have collaborated with the China Vocation Education Society in setting up www.360ve.com, which provides information regarding vocation training schools and vocation training both on-line and on-site.

Significant Accounting Estimates and Policies

The discussion and analysis of our financial condition and results of operations is based upon our 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 and liabilities. On an on-going basis, we evaluate our estimates including the allowance for doubtful accounts, the salability and recoverability of our products, income taxes and contingencies. We base our estimates on historical experience and on other assumptions that we believes to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Property and equipment are evaluated for impairment whenever indicators of impairment exist. Accounting standards require that if an impairment indicator is present, we must assess whether the carrying amount of the asset is unrecoverable by estimating the sum of the future cash flows expected to result from the asset, undiscounted and without interest charges. If the recoverable amount is less than the carrying amount, an impairment charge must be recognized, based on the fair value of the asset.

Franchise rights were acquired by us from third parties and are amortized over the lives of the rights agreements, which is five years. We evaluate the carrying value of the franchise rights 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.

In connection with the organization of our subsidiary, Beijing Hua Yu Hui Zhong Technology Development Co., we gave an unrelated governmental entity a 30% ownership in interest in the contributed capital of that subsidiary. This transfer of ownership is reflected as goodwill on our consolidated financial statements. At June 30, 2007, goodwill incurred in connection with this transaction was $43,696. We evaluate 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. Our evaluation of goodwill completed during the year resulted in no impairment losses. There were no impairments recorded during the year ended December 31, 2006.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To

the extent that we establish a valuation allowance or increase this allowance in a period, we must include a tax provision or reduce our tax benefit in the statements of operations. We use our judgment to determine our provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We believe, based on a number of factors including historical operating losses, which we will not realize the future benefits of a significant portion of our net deferred tax assets and we have accordingly provided a full valuation allowance against our deferred tax assets. However, various factors may cause those assumptions to change in the near term.

We cannot predict what future laws and regulations might be passed that could have a material effect on our results of operations. We assess the impact of significant changes in laws and regulations on a regular basis and update the assumptions and estimates used to prepare our financial statements when we deem it necessary.

We have determined the significant principles by considering accounting policies that involve the most complex or subjective decisions or assessments. Our most significant accounting policies are those related to revenue recognition and deferred revenue.

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. We believe 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. 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 obtain 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. Revenue from advertising on our website is recognized when the advertisement is run. Since advertising customers are billed monthly, there are no unearned advertising revenues.

Prepaid expenses are primarily comprised of advance payments made for services to teachers for online materials and video and prepaid rent.

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. Once the download takes place, the amount is then transferred from advances on accounts to sales. Education fee prepayments represent tuition payments and payments for service contracts which are amortized over their respective terms.

We do not have any stock option or other equity-based incentive plans for our officers, directors or key employees. To the extent that we do adopt such plans in the future, such grants will be valued at the granting date and expensed over the applicable vesting period as required by Statement of Financial Accounting Standard No. 123(R), "Share-Based Payments."

New Accounting Pronouncements

In February 2006, the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS No. 155"), which amends FASB Statements No. 133 and 140. This Statement permits fair value remeasurement for any hybrid financial instrument containing an embedded derivative that would otherwise require bifurcation, and broadens a Qualified Special Purpose Entity's ("QSPE") permitted holdings to include passive derivative financial instruments that pertain to other derivative financial instruments. This Statement is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year beginning after September 15, 2006. This Statement has no current applicability to our financial statements. Management plans to adopt this Statement on January 1, 2007 and it is anticipated that the initial adoption of this Statement will not have a material impact on our financial position, results of operations, or cash flows.

In March 2006, the FASB issued Statement No. 156, “Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140” (“SFAS No. 156”). This Statement is effective for fiscal years beginning after September 15, 2006. This Statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement has no current applicability to our financial statements. Management plans to adopt this Statement on January 1, 2007 and it is anticipated that the initial adoption of this Statement will not have a material impact on our financial position, results of operations, or cash flows.

In June 2006, the FASB issued Interpretation 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), an interpretation of FASB Statement No. 109, “Accounting for Income Taxes.” FIN 48 clarifies the accounting and reporting for income taxes where interpretation of the law is uncertain. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. FIN 48 is effective for fiscal years beginning after December 15, 2006. This Statement has no current applicability to our financial statements. Management plans to adopt this Statement on January 1, 2007 and it is anticipated that the initial adoption of FIN 48 will not have a material impact on our financial position, results of operations, or cash flows.

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is assessing the impact of the adoption of this Statement.

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 our financial statements. Management plans to adopt this Statement on December 31, 2006 and it is anticipated the adoption of SFAS No. 158 will not have a material impact to our financial position, results of operations, or cash flows.

In September 2006, the Securities Exchange Commission issued Staff Accounting Bulletin No. 108 (“SAB No. 108”). SAB No. 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is material, companies will record the effect as a cumulative effect adjustment to beginning of year retained earnings and disclose the nature and amount of each individual error being corrected in the cumulative adjustment. SAB No. 108 will be effective beginning January 1, 2007 and it is anticipated that the initial adoption of SAB No. 108 will not have a material impact on our 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.

Results of Operations

The following table sets forth information from our statements of operations for the three months ended June 30, 2007 and 2006:

	(Dollars in thousands) Three Months Ended June 30,			
	2007		2006	
Revenue	$ 4,350	100%	$ 2,166	100%
Cost of sales	848	19.5%	663	30.6%
Gross profit	3,502	80.5%	1,503	69.4%
Income from operations	1,868	42.9%	1,299	59.9%
Interest expense	389	8.9%	-	-
Other income	66	1.5%	4	0.2%
Income before income taxes	1,546	35.5%	1,303	60.1%
Provision for income taxes	153	3.5%	-	-
Income before minority interest	1,393	32.0%	1,303	60.1%
Net income	1393	32.0%	1,303	60.1%

The following table sets forth information as to the gross margin for our two lines of business for the three months ended June 30, 2007 and 2006.

	Dollars in thousands Three Months Ended June 30,	
	2007	2006
Online Education:		
Revenue	$ 3,718	$ 1,752
Cost of sales	620	466
Gross profit	3,098	1,286
Gross margin	83.3%	73.4%
Training center		
Revenue	632	414
Cost of sales	228	197
Gross profit	404	217
Gross margin	64.0%	52.4%

<u>Three Months Ended June 30, 2007 and 2006</u>

Revenues for the three months ended June 30, 2007 (the “June 2007 quarter”) increased by approximately $2.2 million, or 101%, in 2007 to approximately $4.3 million for the three months ended June 30, 2006 (the “June 2006 quarter”). The increase in revenue reflected increases of approximately $2.0 million from the online education division and approximately $200,000 for the training center. Advertising income is included in our online education revenue. Advertising income increased as the result of the increased awareness of our website, which resulted in more viewers coming to our website, thus enabling us to increase our advertising income to $471,000, an increase of $120,000. During 2006 and 2007, we added several new programs for vocational studies and certification programs, which provides new source of income for our online education business.

Our overall cost of sales increased by approximately $185,000 to $848,000 in the June 30, 2007 quarter, as compared to approximately $663,000 in the June 30, 2006 quarter. The increase in cost of sales reflects a $154,000 increase in our cost of sales for the online education division for the June 30, 2007 quarter while the remaining $31,000 of the increase was from the training center division. The online gross margin for the June 30, 2007 quarter also reflects an increase in advertising revenue which has no substantial cost associated with it. The online training division gross margin increased to 83.3% in the June 30, 2007 quarter from 73.4% in the June 30, 2006 quarter due to the fact that online costs are somewhat fixed and margins increase with volume. In the training center division gross margin increased to 64.0% in the June 30, 2007 quarter from 52.4% in the June 30, 2006 quarter due to less amortization of training center related intangible assets and decreased payments to lecturers.

Selling expenses increased by approximately $970,000 or 815% to approximately $1,089,000 in the June 30, 2007 quarter from approximately $119,000 in the June 30, 2006 quarter. Until the middle of 2006, we did not have a significant selling effort, which is reflected in the modest selling expenses in the June 2006 quarter. Our selling expenses include agency fees associated with increased sales of our debit cards.

Administrative expenses increased by $359,000, or 454%, to $438,000 in the June 30, 2007 quarter as compared to $79,000 in the June 30, 2006 quarter. The increase is due primarily to an increase in salaries due to the overall growth of our business and increases in travel and telephone expenses.

Depreciation and amortization increased by $100,000, or 1,429%, to $107,000 in the June 30, 2007 quarter, as compared to $7,000, in the June 30, 2006 quarter. This increase was due to depreciation and amortization associated with increases in fixed assets and amortization of intangible assets.

Interest expense was $388,582 in the June 30, 2007 quarter, which related to the bridge loan which was made in September 2006. There was no interest or debt in the June 30, 2006 quarter.

Under current Chinese tax law, a wholly foreign owned enterprise has a 100% tax holiday for the first two years and a 50% tax holiday for the following three years. Since we became a wholly foreign owned enterprise in 2005, we benefited from a 100% tax holiday for 2005 and 2006 and, under the present law, we will benefit from a 50% tax holiday for 2007, 2008 and 2009. As a result, we paid no income tax in the three months ended June 30, 2006, and our income tax for the three months ended June 30, 2007 reflects income tax at 50% of the tax rate of 15%.

As a result of the foregoing, we had net income of $1,393,110, or $.02 per share (basic and diluted), for the June 2007 quarter, as compared with net income of $1,302,959, or $.02 per share (basic and diluted), for the June 2006 quarter.

The following table sets forth information from our statements of operations for the six months ended June 30, 2007 and 2006:

	(Dollars in thousands) Six Months Ended June 30,					
		2007			2006	
Revenue:	$	7,436	100%	$	3,514	100%
Cost of sales		1,734	23.3%		1,157	32.9%
Gross profit		5,702	76.7%		2,357	67.1%
Income from operations		3,054	41.1%		1,978	56.3%
Interest expense		493	6.6%		-	-
Other income		72	1.0%		5	0.1%
Income before income taxes		2,633	35.4%		1,983	56.4%
Provision for income taxes		237	3.2%		-	-

Income before minority interest	2,396	32.2%	1,983	56.4%
Net income	2,396	32.2%	1,983	56.4%

The following table sets forth information as to the gross margin for our two lines of business for the six months ended June 30, 2007 and 2006.

	Dollars in thousands Six Months Ended June 30,	
	2007	2006
Online Education:		
Revenue	$ 6,345	$ 2,692
Cost of sales	1,288	793
Gross profit	5,057	1,899
Gross margin	79.7%	70.5%
Training center		
Revenue	1,091	822
Cost of sales	446	364
Gross profit	645	458
Gross margin	59.1%	55.7%

Six Months Ended June 30, 2007 and 2006

Revenues for the six months ended June 30, 2007 (the “2007 half-year”) increased by approximately $3.9 million, or 112%, in 2007 to approximately $7.4 million for the six months ended June 30, 2006 (the “2006 half-year”). The increase in revenue reflected increases of approximately $3.7 million from the online education division and approximately $270,000 for the training center. Advertising income is included in our online education revenue. Advertising income increased as the result of the increased awareness of our website, which resulted in more viewers coming to our website, thus enabling us to increase our advertising income to $1 million, an increase of $400,000. During 2006 and 2007, we added several new programs for vocational studies and certification programs, which provides new source of income for our online education business.

Our overall cost of sales increased by approximately $576,000 to $1.7 million in the 2007 half-year, as compared to approximately $1.2 million in the 2006 half-year. The increase in cost of sales reflects a $494,000 increase in our cost of sales for the online education division for the 2007 half-year while the remaining $82,000 of the increase was from the training center division. The online gross margin for the 2007 half-year also reflects an increase in advertising revenue which has no substantial cost associated with it. The online training division gross margin increased to 79.7% in the 2007 half-year from 70.5% in the 2006 half-year due to the fact that online costs are somewhat fixed and margins increase with volume. In the training center division gross margin increased to 59.1% in the 2007 half-year from 40.9% in the 2006 half0year due to decreased payments to lecturers.

Selling expenses increased by approximately $1.6 million or 785% to approximately $1.8 million in the 2007 half-year from approximately $208,000 in the 2006 half-year. Until the middle of 2006, we did not have a significant selling effort, which is reflected in the modest selling expenses in the 2006 half-year. Our selling expenses include agency fees associated with increased sales of our debit cards.

Administrative expenses increased by $487,000, or 451%, to $596,000 in the 2007 half-year as compared to $108,000 in the 2006 half-year. The increase is due primarily to an increase in salaries due to the overall growth of our business and increases in travel and telephone expenses.

Depreciation and amortization increased by $150,000 or 238%, to $213,000 in the 2007 half-year, as compared to $63,000, in the 2006 half-year. This increase was due to depreciation and amortization associated with increases in fixed assets and amortization of intangible assets.

Interest expense was $493,000 in the 2007 half-year, which related to the bridge loan which was made in September 2006. There was no interest or debt in the 2006 half-year.

Under current Chinese tax law, a wholly foreign owned enterprise has a 100% tax holiday for the first two years and a 50% tax holiday for the following three years. Since we became a wholly foreign owned enterprise in 2005, we benefited from a 100% tax holiday for 2005 and 2006 and, under the present law, we will benefit from a 50% tax holiday for 2007, 2008 and 2009. As a result, we paid no income tax in the six months ended June 30, 2006, and our income tax for the six months ended June 30, 2007 reflects income tax at 50% of the tax rate of 15%.

As a result of the foregoing, we had net income of $2,396,023, or $.04 per share (basic and diluted), for the 2007 half-year, as compared with net income of $1,982,911, or $.03 per share (basic and diluted), for the 2006 half-year.

Liquidity and Capital Resources

Our current assets primarily consist of cash and prepaid expenses. We do not have inventory or accounts receivable, and our other receivables are not significant. Our prepaid expenses are primarily advance payments made to teachers for on-line materials and prepaid rent.

At June 30, 2007, we had cash and cash equivalents of approximately $8.3 million, an increase of approximately $6.5 million, or 361%, from approximately $1.8 million at December 31, 2006. This increase reflected principally the net income generated our business during the six months ended June 30, 2007, as well as a increase in advances by cusomters of approximately $848,000. In May 2007, we sold our convertible notes in the principal amount of $3.4 million, from which we generated net proceeds of approximately $3.2 million. We used approximately $1.36 million to pay outstanding notes.

At June 30, 2007, we had working capital of approximately $4 million, an increase of approximately $2.9 million from working capital of approximately $1.1 million at December 31, 2006. The May 2007 private placement provided us with additional working capital. We consider current working capital and borrowing capabilities adequate to cover our planned operating and capital requirements.

Accounts payable and accrued expenses at June 30, 2007 were approximately $448,000, an increase of approximately $237,000, or 112%, from approximately $211,000 at December 31, 2006, resulting from the increased level of business during the quarter.

Notes payable of approximately $3.4 million at June 30, 2007 represents our convertible notes that were sold in May 2007 private placement.

We believe that our working capital, together with our cash flow from operations will be sufficient to enable us to meet our cash requirements for the next twelve months. However, we may incur additional expenses as we seek to expand our business to offer services in other parts of China as well as market and continue the development of our vocational training activities, and it is possible that we may require additional funding for that purpose. Although we do not have any current plans to make any acquisitions, it is possible that we may seek to acquire one or more businesses in the education field, and we may require financing for that purpose. We cannot assure you that funding will be available if and when we require funding.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2007 and June 30, 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 changes in the Company's internal controls or other factors that could materially affect such controls subsequent to the date of their evaluation, and that there were no corrective actions necessary with regard to any deficiencies or material weaknesses.

ITEM 3A(T). CONTROLS AND PROCEDURES

Management's Internal Control Over Financial Reporting

The Company's internal control over financial reporting disclosure, financial controls, and reporting procedures are designed to ensure that information required to be disclosed in our reports and filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is accurately recorded, processed, summarized, and reported, according to the rules and regulations and within the time periods proscribed by the Exchange Act. The Company believes that its internal controls and procedures relating to its financial reporting are designed to provide reasonable assurance of achieving the Company's goals of compliance with the Exchange Act. However, the design of any system of financial control is based upon certain assumptions about the likelihood of future events and is affected by the amount of resources available to a company and inherent risks within any control procedure. There can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of the inherent limitations in financial disclosure, controls, and procedures, the Company may not be able to prevent or detect all misstatements or failures to comply with the Exchange Act. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The Company's internal control over financial reporting disclosure, financial controls, and reporting procedures are designed by, or under the supervision of, the Company's Chief Executive Officer and President, and the Company's Treasurer and Chief Financial and Accounting Officer. The Company's Chief Executive Officer and President, the Company's Treasurer and Chief Financial and Accounting Officer, the board of directors, management, and other personnel, are involved in implementing the Company's internal control over financial reporting disclosure, financial controls, and reporting procedures in an effort to provide reasonable assurance regarding the reliability of financial reporting, the preparation of financial statements, and the structural flexibility required to effectuate such procedures.

The Company's internal control over financial reporting disclosure, financial controls, and reporting procedures are consistent with generally accepted accounting principles, and includes those policies and procedures that:

(1) pertain to the maintenance of records in reasonable detail and accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only with

the authorization of the management and directors of the Company; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets, or unauthorized transactions, that could have a material effect on the Company’s financial statements.

The Certifying Officers are aware of no changes in the Company's financial reporting disclosure, financial controls, or reporting procedures during the quarter ended June 30, 2007, that could materially affect the Company’s ability to comply with the Exchange Act. The Certifying Officers are aware of no instances during the quarter ended June 30, 2007, whereby the Company’s internal control over financial reporting disclosure, financial controls, and reporting procedures revealed any deficiency or material weakness requiring corrective action by the Company.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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

On May 8, 2007, the Company sold, for a purchase price of $2,400,000, its 3% convertible subordinated notes in the aggregate principal amount of $2,400,000 to three investors. In connection with the financing, the Company entered into a securities purchase agreement with Barron Partners LP, Eos Holdings and Hua-Mei 21st Century Partners, LP pursuant to which the Company issued the notes. A complete description of the transaction relating to the sale of such notes and the terms thereof is described above in *Part I. Financial Information, Note* 9and is further described in the Company's Form 8-K filing of May 15, 2007 (File No. 07847895), which should be read in conjunction with this section.

The Company entered into two separate amendments relating to the purchase agreement governing the sale of its 3% convertible subordinated notes in the aggregate principal amount of $2,400,000 as described above. A complete description of the two amendments to the purchase agreement relating to the sale of the Company's 3% convertible subordinated notes, and the terms of such amendments are detailed in the Company's Form 8-K filing of June 7, 2007 (File No. 07905141) and the Company's Form 8-K filing of June 20, 2007 (File No. 07935036), which should be read in conjunction with this section, and the results of such amendments are further described above in *Part I. Financial Information, Note* 9.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEMS 5. OTHER INFORMATION

The Company filed a preliminary Schedule 14A Proxy Statement on June 15, 2007, and, after the quarter ended June 30, 2007, filed a corresponding Schedule 14A Proxy Statement on July 5, 2007. The Schedule 14A Proxy Statement asked the shareholders to approve an amendment of the Company's Articles of Incorporation in accordance with the agreement made by the Company and the investors in the private placement as described in the convertible notes sold by the Company as described in its Form 8-K filings of May 15, 2007 (File No. 07847895), June 7, 2007 (File No. 07905141), and the Company's Form 8-K filing of June 20, 2007 (File No. 07935036). The Company's preliminary Schedule 14A Proxy Statement should be read in conjunction with this section.

ITEM 6. EXHIBITS

(a) Exhibits.

3.1 Articles of Incorporation filed December 2, 1996 in the State of North Carolina is incorporated herein by reference to Exhibit 3.1 to the Form SB-2 Registration Statement of the Company (File No. 333-101167) filed on November 13, 2002

3.2 Articles of Amendment dated May 23, 2002 is incorporated herein by reference to Exhibit 3.2 to the Form SB-2 Registration Statement of the Company (File No. 333-101167) filed on November 13, 2002

3.3 Articles of Amendment filed November 17, 2004, changing the name of the Company from ABC Realty Co. to China Education Alliance, Inc. is incorporated herein by reference to Exhibit 3.3 filed with the Company's Form 10-KSB annual report for its fiscal year ended December 31, 2005

3.4 ByLaws of the Company are incorporated herein by reference to Exhibit 3.3 to the Form SB-2/A Registration Statement of the Company filed on February 7, 2003 (File No. 333-101167)

10.1 Stock Transaction Agreement between and among the Company and the former owners of Harbin Zhonghelida Educational Technology Co., Ltd., a wholly owned subsidiary of the Company is incorporated herein by reference to Exhibit 10.3 filed with the Company's Form 10-KSB filed on April 17, 2006 is hereby incorporated herein by reference to Exhibit 10.1 to the Form 10-SB Registration Statement of the Company filed on June 30, 2006.

10.2 Organization Constitution of Heilongjiang Zhonge Education Training Center dated June 15, 205, a wholly owned subsidiary of the Company is incorporated herein by reference to Exhibit 10.4 filed with the Company's Form 10-KSB filed on April 17, 2006 is incorporated herein by reference to Exhibit 10.2 to the Form 10-SB Registration Statement of the Company filed on June 30, 2006.

10.3 Business licenses of Harbin Zhonghelinda Educational Technology Company Limited, a wholly owned subsidiary of the Company is incorporated herein by reference to Exhibit 10.5 filed with the Company's Form 10-KSB filed on April 17, 206 is hereby incorporated herein by reference to Exhibit 10.3 to the Form 10-SB Registration Statement of the Company filed on June 30, 2006.

10.4 Product Commission Process Contract dated March 2, 2006, with Tianjin Huishi Printing Products Co., Ltd. is incorporated herein by reference to Exhibit 10.4 to the Form 10-SB Registration Statement of the Company filed on June 30, 2006.

10.5 Employment contract with Liansheng Zhang effective February 21, 2006 is incorporated herein by reference to Exhibit 10.7 filed with the Company's Form 10-KSB filed on April 17, 2006 is hereby incorporated herein by reference to Exhibit 10.5 to the Form 10-SB Registration Statement of the Company filed on June 30, 2006.

10.6 Consulting Agreement with Conceptual Management Limited dated March 20, 2006 is incorporated herein by reference to Exhibit 10.8 filed with the Company's Form 10-KSB filed on April 17, 2006 is hereby incorporated herein by reference to Exhibit 10.6 to the Form 10-SB Registration Statement of the Company filed on June 30, 2006.

10.7 Form of Promissory Note dated September 29, 2006, by the Registrant is hereby incorporated herein by reference to Exhibit 10.1 to the Form 8-K current report of the Registrant on November 2, 2006.

10.8 Stock Pledge Agreement dated September 29, 2006, between Xinqun Yu and the Agent is hereby incorporated herein by reference to Exhibit 10.2 to the Form 8-K current report of the Registrant filed on November 2, 2006.

10.9 Guarantee Agreement dated as of September 29, 2006, among Harbin Zhong He Li Da Jiao Yu Ke Ji You Xian Gong Si, Heilongjiang Zhonghe Education Training Center, Harbin Zhonghelida Educational Technology Company Limited, Xinqun Yu, and the Agent is hereby incorporated herein by reference to Exhibit 10.3 to the Form 8-K current report of the Registrant filed on November 2, 2006.

10.10 Investor Relations Agreement dated November 1, 2006, with Taylor Rafferty Associates, Inc. is incorporated herein by reference to Exhibit 10.3 to the Form 10-QSB quarterly report of the Company for the period ended June 30, 2006

10.11 Purchase Contract dated December 28, 2006, to purchase assets of Harbin Nangang Compass Computer Training School.

10.12 Securities purchase agreement dated May 8, 2007, among the Company, Barron Partners, LP and the other investors named therein is hereby incorporated herein by reference to Exhibit 99.1 to the Form 8-K of the Company filed on May 15, 2007.

10.13 3% Convertible Note issued to Barron Partners, LP is hereby incorporated herein by reference to Exhibit 99.2 to the Form 8-K of the Company filed on May 15, 2007.

10.14 3% Convertible Note issued to Eos Holdings is hereby incorporated herein by reference to Exhibit 99.3 to the Form 8-K of the Company filed on May 15, 2007.

10.15 3% Convertible Note issued to Hua-Mei 21st Century Partners, LP is hereby incorporated herein by reference to Exhibit 99.4 to the Form 8-K of the Company filed on May 15, 2007.

10.16 Registration rights agreement, dated May 8, 2007, among the Company, Barron Partners, LP and the other investors named therein is hereby incorporated herein by reference to Exhibit 99.5 to the Form 8-K of the Company filed on May 15, 2007.

10.17 Closing escrow agreement, dated May 8, 2007, among the Company, Barron Partners, LP and the other investors named therein and the escrow agent named therein is hereby incorporated herein by reference to Exhibit 99.6 to the Form 8-K of the Company filed on May 15, 2007.

10.18 Letter agreement dated May 8, 2007 between the Company and SBI Advisors LLC, and related payment letter is hereby incorporated herein by reference to Exhibit 99.7 to the Form 8-K of the Company filed on May 15, 2007.

10.19 Amendment dated as of May 23, 2007 to the securities purchase agreement dated May 8, 2007, among the Company, Barron Partners, LP and the other investors named therein is hereby incorporated herein by reference to Exhibit 99.1 to the Form 8-K of the Company filed on June 7, 2007.

10.20 3% Convertible Note issued to Barron Partners, LP is hereby incorporated herein by reference to Exhibit 99.2 to the Form 8-K of the Company filed on June 7, 207.

10.21 Closing escrow agreement, dated May 8, 2007, among the Company, Barron Partners, LP and the other investors named therein and the escrow agent named therein is hereby incorporated herein by reference to Exhibit 99.3 to the Form 8-K of the Company filed on June 7, 2007.

16.1 Letter on change in certifying accountant is incorporated hereby by reference to the Form 8-K current report of the Company dated January 4, 2007.

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: August 14, 2007

By: ________________________

Xi Qun Yu
Chief Executive Officer and President

By: ________________________

Wang Chunqing
Chief Financial Officer

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