CHINA EDUCATION ALLIANCE INC.
Form 10-K/A
March 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2010

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

For the transition period from ___________to __________

Commission file number **001-34386**

CHINA EDUCATION ALLIANCE, INC.

(Exact name of registrant as specified in its charter)

North Carolina 56-2012361

State or other jurisdiction of	(I.R.S. Employer
Incorporation or organization	Identification No.)

58 Heng Shan Road, Kun Lun Shopping Mall, Harbin, People's Republic of China	150090
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code **011-86-451-8233-5794**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value	**New York Stock Exchange, LLC**

Securities registered pursuant to section 12(g) of the Act:

Not Applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. x Yes ¨ No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes ¨ No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company þ

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was $78,730,670.90 (18,971,246 shares of common stock held by non-affiliates, closing price on June 30, 2010 was $4.15).

Note.—If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

¨ Yes ¨ No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

The number of shares of common stock, par value $0.001 (the "Common Stock"), outstanding as of April 15, 2011 is 31,727,249.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

EXPLANATORY NOTE

We are filing this Amendment No. 1 ("Amendment") to our Annual Report on Form 10-K for the year ended December 31, 2010,originally filed with the SEC on April 15, 2011 (the "Original Report"), to include the audit report of Albert Wong & Co., an independent registered public accounting firm, and our consolidated financial statements as of December 31, 2010 and 2009 and for the years then ended, which report and financial statements replace in their entirety the report of Sherb & Co., LLP ("Sherb") and the accompanying financial statements. As previously reported in our Current Report on Form 8-K filed with the SEC on March 20, 2013, Sherb's audit report dated April 12, 2011 on our financial statements for the years ended December 31, 2010 and 2009 could not be relied upon because it was not in technical compliance with the concurring partner rotation rules of Auditing Standard No. 7.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Amendment also contains new certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. In addition, this Amendment also include the Consent of Albert Wong & Co. Accordingly, Item 15 of Part IV has also been amended to include the currently dated certifications and auditor's consent as exhibits.

Except to the extent required to reflect the above-referenced amendments, this Amendment continues to describe the Company as of the date of the Original Report, and does not update disclosures to reflect events that occurred after the date of the Original Report. Accordingly, this Amendment should be read in conjunction with the Original Report and with our other filings made with the Securities and Exchange Commission subsequent to the filing of the Original Report, including any amendments to those filings.

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FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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CHINA EDUCATION ALLIANCE, INC. AND SUBSIDIARIES

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CERTIFIED PUBLIC ACCOUNTANTS

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Hong Kong

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ALBERT WONG

B.Soc., Sc., ACA., LL.B., C.P.A.(Practising)

To: The board of directors and stockholders of
China Education Alliance, Inc. (“the Company”)

Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheets of China Education Alliance, Inc. and subsidiaries ("the Group") as of December 31, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were not engaged to examine management's assertion about the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 and 2009 included in the Company's Item 9A "Controls and Procedures" in the Annual Report on Form 10-K and, accordingly, we do not express an opinion thereon.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Education Alliance, Inc. as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hong Kong, China	Albert Wong & Co.
March 31, 2014	Certified Public Accountants

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China Education Alliance, Inc. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	$71,105,415	$65,035,332
Accounts receivable	-	1,274,727
Other receivable	432,030	-
Prepaid expenses	2,834,976	2,692,310
Total current assets	74,372,421	69,002,369
Non-current Assets		
Note receivable	7,172,301	-
Property and equipment, net	9,946,729	6,589,982
Intangibles and capitalized software, net	1,515,381	737,761
Advance on acquisition	-	932,000
Long-term investment	559,269	341,686
Total non-current assets	19,193,680	8,601,429
Total Assets	$93,566,101	$77,603,798
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$686,102	$1,255,991
Deferred revenues	1,072,371	1,008,884
Total current liabilities	1,758,473	2,264,875
Stockholders' Equity		
Preferred stock ($0.001 par value, 20,000,000 shares authorized, 0 and 4,502,143 issued and outstanding, respectively, aggregate liquidation preference of 0 and $1,665,793, respectively)	-	1,867,644
Common stock ($0.001 par value, 150,000,000 shares authorized, 31,261,911 and 30,040,954 issued at December 31, 2010 and 2009, respectively; and 412,536 shares held in treasury at December 31, 2010)	31,263	30,041
Additional paid-in capital	39,705,625	38,231,623
Statutory reserve	3,731,672	3,016,143
Accumulated other comprehensive income	5,573,565	2,886,087

Retained earnings	44,591,566	30,044,687
Less: Treasury stock	(977,072)	-
Stockholders' equity - China Education Alliance, Inc. and Subsidiaries	92,656,619	76,076,225
Noncontrolling interests in subsidiaries	(848,991)	(737,302)
Total stockholders' equity	91,807,628	75,338,923
Total Liabilities and stockholders's Equity	$93,566,101	$77,603,798

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

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China Education Alliance, Inc. and Subsidiaries

Consolidated Statements of Operations

	Year Ended December 31, 2010	2009
Revenues		
Online education revenues	$28,495,602	$22,238,325
Training center revenues	16,033,297	12,097,375
Other Revenues	1,738,090	2,631,783
Total revenue	46,266,989	36,967,483
Cost of Goods Sold		
Online education costs	4,798,259	4,584,519
Training center costs	3,232,063	2,569,538
Other costs	147,656	210,882
Total cost of goods sold	8,177,979	7,364,939
Gross Profit		
Online education gross profit	23,697,343	17,653,806
Training center gross profit	12,801,233	9,527,837
Other gross profit	1,590,434	2,420,901
Total gross profit	38,089,010	29,602,544
Operating Expenses		
Selling expenses	17,250,787	9,352,392
Administrative	3,349,116	3,146,094
Depreciation and amortization	913,965	952,193
Total operating expenses	21,513,867	13,450,679
Income from operations	16,575,142	16,151,865
Other Income (Expense)		
Other income	(67)	130,056
Interest income	223,802	130,675
Investment loss	-	(671)
Total other income	223,735	260,060
Net Income Before Provision for Income Tax	16,798,877	16,411,925
Provision for income taxes	1,648,158	1,295,224
Net Income	15,150,719	15,116,701
Net loss attributable to the noncontrolling interests	(111,689)	(90,071)
Net Income - attributable to CEU and Subsidiaries	$15,262,408	$15,206,772
Basic Earnings Per Share	$0.48	$0.63

Diluted Earnings Per Share	$0.48	$0.59
Basic Weighted Average Shares Outstanding	31,928,992	24,081,002
Diluted Weighted Average Shares Outstanding	32,033,326	25,622,606
The Components of Other Comprehensive Income		
Net income	$15,262,408	$15,206,772
Foreign currency translation adjustment	2,687,478	189,644
Comprehensive income	$17,949,886	$15,396,416

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

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China Education Alliance, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

	Preferred Stock Number of Shares	Amount	Common Stock Number of Shares	Par Value	Additional Paid-In Capital	Statutory Reserve	Accumulated Other Comprehensive Income	Retained Earnings
Balance at January 1, 2009	7,597,645	$3,010,144	21,892,631	$21,893	$10,751,732	$1,990,238	$2,696,443	$15,863,820
Exercise of warrants			3,296,787	3,297	6,426,428			
Conversion of preferred stock	(3,095,502)	(1,142,500)	1,031,834	1,032	1,141,468			
Common stock issued for services			223,339	223	1,043,241			
Common stock sold per underwriting agreement			3,596,363	3,596	18,381,299			
Stock based compensation					487,455			
Foreign currency translation adjustment							189,644	
Appropriation to statutory reserve						1,025,905		(1,025,905)
Net income								15,206,772
Balance at December 31, 2009	4,502,143	1,867,644	30,040,954	30,041	38,231,623	3,016,143	2,886,087	30,044,687
Exercise of warrants			99,583	100	298,649			
Conversion of preferred stock	(4,502,143)	(1,867,644)	1,500,714	1,501	1,866,143			
			20,660	21	59,901			

Exercise of options								
Stock based compensation					180,909			
WEI cancellation			(400,000)	(400)	(931,600)			
Foreign currency translation adjustment							2,687,478	
Appropriation to statutory reserve						715,529	-	(715,529)
Treasury stock								
Net income								15,262,408
Balance at December 31, 2010	-	$-	31,261,911	$31,263	$39,705,625	$3,731,672	$5,573,565	$44,591,566

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

China Education Alliance, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2010	2009
Cash flows from operating activities		
Net Income	$15,150,719	$15,116,701
Adjustments to reconcile net income to net cash provided by Operating activities		
Depreciation and amortization	1,692,147	1,586,417
Stock based compensation	180,909	487,455
Common stock issued for services	-	1,043,464
Loss on equity investment	(217,583)	671
Net change in assets and liabilities		
Account receivables	1,274,727	(805,120)
Prepaid expenses and other	(142,666)	745,196
Advances to related parties	-	142,006
Other receivable	(432,030)	
Accounts payable and accrued liabilities	(569,889)	455,299
Deferred revenue	63,489	(218,922)
Net cash provided by operating activities	16,999,823	18,553,167
Cash flows from investing activities		
Purchases of property and equipment	(5,048,894)	(1,840,377)
Purchase of intangible assets		(73,442)
Purchase of long-term investment	(217,583)	-
Acquisition of intangible asset	(777,620)	-
Net cash used in investing activities	(6,044,097)	(1,913,819)
Cash flows from financing activities		
Warrants exercised	298,749	6,429,725
Purchase of treasury stock	(977,072)	-
Loan to others-NIT	(7,172,301)	-
Options exercised	59,621	18,384,895
Net cash provided by financing activities	(7,791,003)	24,814,620
Effect of exchange rate	2,905,360	163,266
Net increase in cash	6,070,083	41,617,234

Cash and cash equivalents at beginning of period	65,035,332	23,418,098
Cash and cash equivalents at end of period	$71,105,415	$65,035,332
Supplemental disclosure of cash flow information		
Income taxes paid	$1,863,149	$1,199,414
Non-cash investing and financing activities		
Conversion of preferred stock to common	$1,867,644	$1,142,500
Cashless exercise of warrants	$365	-

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

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CHINA EDUCATION ALLIANCE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. Description of Business

Nature of organization - China Education Alliance, Inc. (the "Company"), formerly known as ABC Realty Co., was originally organized under the laws of the State of North Carolina on December 2, 1996. ABC Realty Co.'s primary purpose was to act as a broker or agent in residential real estate transactions. On September 15, 2004, ABC Realty Co. 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 in the Heilongjiang Province, People's Republic of China (the "PRC"), 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, the former Chairman of ABC Realty Co., pursuant to which the shareholders of ZHLD exchanged all of their registered capital of $60,386 for 18,333,334 shares of common stock of the Company, or approximately 95% of the Company's 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 and ZHLD's shareholders. 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 the People's Republic of China. Its mission is to promote online exam preparation services in the People's Republic of China, to improve the efficiency and effectiveness of elementary education, secondary education, vocational education, skill education, continuing education, and professional training programs, and to integrate with the international education system.

ZHLD's subsidiary, Heilongjiang Zhonghe Education Training Center ("ZHTC") was registered in the PRC on July 8, 2005 with a registered capital of $60,386 and is accounted for as a wholly owned subsidiary of ZHLD. ZHLD owns 99% of ZHTC with 1% held in trust by Xiqun Yu, the Company's CEO, 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 in the PRC. The remaining 30% interest was given to The Vocational Education Guidance Center of China for no consideration. The 30% interest in BHYHZ that the Company transferred to The Vocational Education Guidance Center of China for no consideration was treated as an intangible asset.

On April 18, 2008, ZHLD entered into an agreement and supplementary agreement with Harbin Daily Newspaper Group (“Newspaper Group”) to invest in a joint venture company, Harbin New Discovery Media Co., Ltd. (“New Discovery”). ZHLD contributed RMB 3,000 000 (approximately, $430,000) and Newspaper Group contributed RMB 3,120,000 (approximately, $445,000) towards the registered capital of New Discovery. In return for their respective contributions, ZHLD own 49.02% equity interest and Newspaper Group own 50.98% equity interest in New Discovery. The parties are prohibited, for the duration of the joint venture from retiring or transferring their equity interests. This joint venture will create new educational material distribution channels in readable newspaper format in the future. The value of this investment as of December 31, 2010 and December 31, 2009 was $559,269 and $341,686, respectively. Subsequently, as the Company did not foresee that the investment cost is recoverable from this joint venture in the near future, the Company provided fully impairment on the investment by the year ended December 31, 2011.

On January 4, 2009, China Education Alliance’s subsidiary, Harbin Zhong He Li Da Education Technology, Inc (“ZHLD”) entered into an agreement with Mr. Guang Li to jointly incorporate and invest in a joint venture company, Zhong He Li Da (Beijing) Management Consultant Co., Ltd. (“ZHLDBJ”). ZHLD contributed RMB 425,000 (approximately, $62,107), and Mr. Guang Li contributed RMB 75,000 (approximately, $10,960) towards the registered capital of ZHLDBJ, amounting to a total registered capital of 500,000 RMB (approximately, $73,067). In return for their respective contributions, ZHLD owns an 85% equity interest, and Mr. Guang Li owns a 15% equity interest in ZHLDBJ. ZHLD has authorized Mr. Xiqun Yu, the Company CEO, to hold 20% of its equity interest of ZHLDBJ on its behalf.   ZHLDBJ will be involved in the vocational training business which includes IT engineering and accounting training, in particular, in running the “Million Managers Training Program”, with the goal of improving participants’ management skills and designing a complete solution for the management, clients and suppliers.

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On February 3, 2010, China Education Alliance, Inc. announced that through its wholly owned subsidiary, Harbin Zhong He Li Da Education Technology, Inc. ("ZHLD"), it has incorporated a new company in the PRC, Beijing New Shifan Education & Technology ("New Shifan"), with a registered capital of RMB 1.95 million. New Shifan was created to continue the operations of Beijing Shifan Culture Communication Co., Ltd. ("Beijing Shifan"). The Company paid the original owner of Beijing Shifan RMB 6 million (approximately $876,000) to acquire their expertise, in (i) science and math education at the secondary education level, (ii) the rights to continue publishing the magazine "Senior High School Students Mathematic, Physics, and Chemistry" and (iii) the rights to a nationwide contest for middle school and high school students. The Company considers the RMB 6 million payment as an intangible asset whose evaluation and life has not been finalized as of December 31, 2010, accordingly no amortization has been recorded. Beijing Shifan will be dissolved by the old owner. The focus of New Shifan is on the advancement of science and mathematics education, the publishing of the "Senior High School Students Mathematic, Physics, and Chemistry" magazine, which has been endorsed by the PRC Ministry of Education. Beijing Shifan is also the sponsor and organizer of a nationwide contest for middle school and high school students. This national competition tests the students' academic abilities in mathematics, physics and chemistry. There are over 100,000 students participating in the contest from 23 provinces in the PRC. Winners of the contest qualify for enrollment in some of the top universities in the People's Republic of China. The new company brings significant impact on the secondary education market in China. Mrs. Yin Xiaojie, the former sole shareholder, owner and CEO of Beijing Shifan, will take on a management position at New Shifan and will own 35% of the equity interest in New Shifan, while ZHLD owns the remaining 65% interest. There has been minimal operating activity from New Shifan for the year ended December 31, 2010.

The Company's principal business is the distribution of educational resources through the Internet and training centers. The Company's website, www.edu-chn.com, is a comprehensive education network platform which is based on network video technology and large data sources of elementary and secondary education resources. The Company has a data base comprised of such resources as test papers that are used for elementary and secondary education courses. The data base includes more than 350,000 exams and test papers and courseware for elementary and secondary school students. The Company markets this data base under the name "Famous Instructor Test Paper Store." Although a number of the resources are available through the website without charge, our subscribers are charged for services such as the "Famous Instructor Test Paper Store" and for videos on demand. Subscribers can purchase debit cards which can be used to download material from the website.

The Company also provides on-site teaching services in Harbin and other cities, which are marketed under the name "Famed Instructors Classroom." The Company has a 36,600 square foot training facility in Harbin, Heilonjiang Province, the PRC, which has 17 classrooms and can accommodate up to 1,200 students.

For the years ended December 31, 2010 and 2009, three customers each accounted for greater than 10% of sales during each year. A certain distribution agent in each of Heilongjing, Jinlin and LiaoNing Provinces accounted for 15.3%, 13.5%, and 14.2%, respectively of the total revenue for the year 2010, and 14.8%, 11.3% and 14.0%, respectively of total revenue for the year 2009.

2 Basis of Preparation of Financial Statements

The accompanying consolidated financial statements differ from the financial statements used for statutory purposes in the PRC in that they have been prepared in compliance with U.S. generally accepted accounting principles ("GAAP") and 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 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 subsidiaries (ZHLD and ZHTC) and its majority owned subsidiaries (BHYHZ, ZHLDBJ and New Shifan). All inter-company transactions and balances were eliminated.

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

Significant estimates include values and lives assigned to acquire intangible assets, the useful lives and impairment of property and equipment, collectability of accounts receivable, reserves for allowances and stock option valuation. Actual results may differ from these estimates.

Cash and cash equivalents - The Company considers all highly liquid debt instruments purchased with a maturity period of three months or less to be cash or cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheets for cash and cash equivalents approximate their fair value. All of the Company's cash that is held in bank accounts in the PRC is not protected by FDIC insurance or any other similar insurance in the PRC. The cash that the Company maintains in US banks is insured up to $250,000 at each bank as of December 31, 2010 and 2009. The Company's cash at their US banks is in excess of statutorily insured limits at approximately $960,000 and $14,636,000, respectively, as of December 31, 2010 and 2009.

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
Transportation Vehicles	5 years
Furniture and Fixtures	5 years

Expenditures for renewals and betterments are 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 are 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 December 31, 2010 and 2009.

Intangibles - Intangibles consist of franchise rights on educational products, software, and New Shifan's expertise, magazine rights and contest operation rights. Most intangible assets are amortized over the lives of the rights agreements, or their respective operational useful lives. The Company has not completed its evaluation of New Shifan's intangible as of December 31, 2010, accordingly no amortization has been calculated for twelve months ended December 31, 2010.

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 as of December 31, 2010 and 2009.

Long-Lived Assets - The Company reviews its long-lived assets for impairment when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets under certain circumstances are reported at the lower of carrying amount or fair value. Assets to be disposed of and assets not expected to provide any future service potential to the company are recorded at the lower of carrying amount or fair value less cost to sell. To the extent carrying values exceed fair values; an impairment loss is recognized in operating results.

Foreign Currency - The Company's principal country of operations is the PRC. The financial position and results of operations of the Company are recorded in Renminbi ("RMB") as the functional currency. The results of operations denominated in foreign currency are translated at the average rate of exchange during the respective reporting period.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange 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 ("U.S. Dollars") are recorded in accumulated other comprehensive income, a separate component within shareholders' equity.The accompanying consolidated financial statements are presented in United States dollars ("US$"). The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are translated into United States dollars from RMB at year-end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The resulting translation adjustments are recorded as a component of shareholders' equity included in comprehensive income. Gains and losses from foreign currency transactions are included in net income. There were no gains and losses from foreign currency transactions during the years ended December 31, 2010 and 2009.

	December 31,	
	2010	2009
RMB: US$ exchange rate	6.5910	6.8372

	Year Ended December 31,	
	2010	2009
Average RMB: US$ exchange rate	6.7599	6.8409

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

Noncontrolling Interest - Noncontrolling interests in the Company's subsidiaries are recorded in accordance with the provisions of FASB Accounting Standards Codification 810 Consolidation ("ASC 810") and are reported as a component of equity, separate from the parent's equity. Purchase or sale of equity interests that do not result in a change of control are accounted for as equity transactions. Results of operations attributable to the noncontrolling interest are included in our consolidated results of operations and, upon loss of control, the interest sold, as well as interest retained, if any, will be reported at fair value with any gain or loss recognized in earnings.

Revenue recognition - Revenue is 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 when customers download prepaid study materials.

Prepaid debit cards allow the Company's subscribers to purchase a predetermined monetary amount of download materials posted on its 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 the card is used. Unused value relating to debit cards is recognized as revenues when the prepaid debit card expires.

Tuition from courses is recognized ratably over the period that fees are earned, typically the life of the course. The Company offer credits to students if they should withdraw, or be unable to complete their required courses. Historically the issuances of credits have not been high with regards to tuition fees. The Company offers cash refunds on a limited basis based on individual circumstances.

The Company engages an advertisement agency to manage its on-line advertisement revenue. Per the contract with this agency, upon posting of an on-line advertisement on the Company's website, the Company is entitled to share with the agency 50% of the amount charged to the on-line advertiser. The Company recognizes advertising revenue over the term of the advertisement. The agency is responsible for collection of all ad revenue from advertisers. The agency is required to make their remittance for on-line advertising six months after on-line ads are posted on their website.

Deferred revenue reflects the unearned portion of debit cards sold and tuition. Tuition is recognized as revenue ratably over the periods in which it is earned, generally the term of the program or as the debit card is used.

Accounts Receivables - Included in accounts receivables are receivables from advertising on the Company's websites and from the sale of prepaid debit cards to resellers. The sales of prepaid debit cards to resellers are recorded as deferred revenue until such time as the cards are used to download material from the Company's website. Total accounts receivables as of December 31, 2010 and 2009 was $0 and $1,274,727, respectively.

The Company reviews its accounts receivables on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection. If accounts receivable are to be provided for, or written off, they would be recognized in the consolidated statement of operations within operating expenses. As of December 31, 2010 and 2009, the Company has not established an allowance for doubtful accounts, in addition the Company has not provided for, or written off, accounts receivable during the twelve months ended December 31, 2010 and 2009.

Deferred Revenue - Deferred revenue reflects the unearned portion of debit cards sold and tuition payments received. Deferred revenue as of December 31, 2010 and 2009 was $1,072,371 and $1,008,884, respectively.

Advertising - The Company expenses advertising costs at the time they are published in the newspaper and for all other advertising the first time the respective advertising takes place. These costs are included in selling, general and administrative expenses. The total advertising expenses incurred for the twelve months ended December 31, 2010 and 2009 were $1,308,290 and $1,093,535, respectively.

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

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 foreign operations for the foreseeable future. All Company revenues are generated in the PRC. The Company’s US operations provide corporate and administrative functions for the entire Company. The Company’s tax provisions for the year ended December 31, 2010 and 2009 are related to the Company’s PRC operations.

If the Company should have an uncertainty in accounting for income taxes, the Company evaluates a tax position in a two step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of the position. The second step is to measure the tax position that meets the more-likely-than-not threshold to determine the amount of provision or benefit to be recognized in the financial statements. A tax position is measured at the largest amount of provision or benefit where there is a greater than 50% likelihood of being realized upon ultimate settlement.

Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent reporting period in which the threshold is no longer met.

Based on all known facts and circumstances and current tax law, the Company believes that the total amount of unrecognized tax provisions or benefits as of December 31, 2010 and 2009, is not material to its results of operations, financial condition or cash flows. The Company also believes that the total amount of unrecognized tax provisions or benefits as of December 31, 2010 and 2009, 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 provisions or 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.

Enterprise income tax

Under the Provisional Regulations of the PRC Concerning Income Tax on Enterprises promulgated by the State Council which came into effect on January 1, 1994, income tax is payable by Wholly Owned Foreign Enterprises ("WOFE's") at a rate of 15% of their taxable income. Preferential tax treatment may, however, be granted pursuant to any law or regulations from time to time promulgated by the State Council. ZHLD enjoyed a 100% exemption from enterprise income taxes during 2006 due to its classification as a WOFE. This exemption ended on December 31, 2006, at which time ZHLD qualified under the then current tax structure for a 50% reduction in the statutory enterprise income tax rates for the three years ended December 31, 2007, 2008 and 2009. For the years ended December 31, 2008 and 2007, ZHLD's effective income tax rate was at 7.5%, based on having received a 50% exemption in the year ended December 31, 2007 when the prevailing effective tax rate was 30%, and an additional 50% exemption as ZHLD was a technology and software entity. During the year ended December 31, 2009, ZHLD obtained similar exemptions to those of the year ended December 31, 2008; however, the prevailing tax rate had a minimum threshold of 10% for the year ended December 31, 2009. In the current fiscal year ended December 31, 2010 ZHLD continues being qualified as a technology and software entity, and receives a 15% statutory PRC enterprise income tax rate. The Company's ZETC subsidiary is currently exempt from PRC taxation, as it operates a business enterprise engaged in educational opportunities. The Company's other subsidiaries; BHYHZ, ZHLDBJ and New Shifan are taxed at the PRC statutory rate (25%), and have not accrued for taxes since inception, due to recurring losses or no income incurred since inception.

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. The Company has no net deferred tax assets or liabilities as of December 31, 2010 and December 31, 2009. In addition, the Company has not recorded a deferred tax expense for the year ended December 31, 2010 and 2009.

Value added tax

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (VAT) 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, VAT is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

VAT payable in the PRC 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 VAT included in the price or charges, less any deductible VAT already paid by the taxpayer on purchases of goods and services in the same financial year. The Company records all revenues net of VAT taxes.

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

As of December 31, 2010 and 2009 the Company has no related party transactions.

Stock based compensation - The Company records compensation expense associated with stock-based awards and other forms of equity compensation. Such compensation would include the recording of cost resulting from all stock-based payment transactions including shares issued under its stock option plans. The Company records expense over the vesting period in connection with stock options granted. The compensation expense for stock-based awards includes an estimate for forfeitures and is recognized over the expected term of the award on a straight line basis.

Fair value of financial instruments - The Company has adopted newly issued generally accepted accounting principles with regards to fair value measurement for assets and liabilities that establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of these recently issued principles did not have an impact on the Company’s financial position or operating results, but did expand certain disclosures.

Current fair value of financial instruments defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, current standards require the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1:	Observable inputs such as quoted market prices in active markets for identical assets or liabilities
Level 2:	Observable market-based inputs or unobservable inputs that are corroborated by market data
Level 3:	Unobservable inputs for which there is little or no market data, which require the use of the reporting entity’s own assumptions.

The Company did not have any Level 2 or Level 3 assets or liabilities as of December 31, 2010.

Cash and cash equivalents of approximately $71,105,000 and $65,035,000 as of December 31, 2010 and December 31, 2009, respectively, include only cash on hand and in banks that are considered to be highly liquid and easily tradable as of December 31, 2010. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy.

In addition to fair value requirements noted above, recent standards expands opportunities for the use of fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value options for any of its qualifying financial instruments.

Reclassifications - Certain reclassifications have been made to the prior periods’ financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or the sum of retained earnings and statutory reserve.

Recent accounting pronouncements -

Recent accounting pronouncements applicable to the Company are summarized below.

- In June 2009, the FASB issued Accounting Standards Update No. 2009-01, “Generally Accepted Accounting Principles” (ASC Topic 105) which establishes the FASB Accounting Standards Codification (“the Codification” or “ASC”) as the official single source of authoritative U.S. generally accepted accounting principles (“GAAP”). All existing accounting standards are superseded. All other accounting guidance not included in the Codification will be considered non-authoritative. The Codification also includes all relevant Securities and Exchange Commission ("SEC") guidance organized using the same topical structure in separate sections within the Codification. Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates ("ASU") which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification was effective for our third-quarter 2009 financial statements and the principal impact on our financial statements is limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification. In order to ease the transition to the Codification, we are providing the Codification cross-reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

- In October 2009, the FASB issued an ASU regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The adoption of this ASU has had minimal to no impact on our consolidated financial statements.

In December 2009, FASB issued ASU No. 2009-16, Accounting for Transfers of Financial Assets. This Accounting Standards Update amends the FASB Accounting Standards Codification for the issuance of FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140.*The amendments in this Accounting Standards Update improve financial reporting by eliminating the exceptions for qualifying special-purpose entities from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. Comparability and consistency in accounting for transferred financial assets will also be improved through clarifications of the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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

In January 2010, FASB issued ASU No. 2010-02 regarding accounting and reporting for decreases in ownership of a subsidiary. Under this guidance, an entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, and entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. In contrast, an entity is required to account for a decrease in its ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. This ASU clarifies the scope of the decrease in ownership provisions, and expands the disclosures about the deconsolidation of a subsidiary or de-recognition of a group of assets. This ASU is effective for beginning in the first interim or annual reporting period ending on or after December 31, 2009. The adoption of this ASU has had minimal to no impact on our consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-01- Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this ASU has had minimal to no impact on our consolidated financial statements.

- In January 2010, FASB issued ASU No. 2010-02 – Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51.” If an entity has previously adopted SFAS No. 160 as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted SFAS No. 160. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Thos disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU has had minimal to no impact on our consolidated financial statements.

On March 5, 2010, the FASB issued authoritative guidance to clarify the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Specifically, only one form of embedded credit derivative qualifies for the exemption – one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. This guidance also has transition provisions, which permit entities to make a special one-time election to apply the fair value option to any investment in a beneficial interest in securitized financial assets, regardless of whether such investments contain embedded derivative features. This guidance is effective on the first day of the first fiscal quarter beginning after June 15, 2010. Early adoption is permitted at the beginning of any fiscal quarter beginning after March 5, 2010. This amendment is not expected to have a material impact on the Company's financial statements.

In March 2010, FASB issued an authoritative pronouncement regarding the effect of denominating the exercise price of a share-based payment awards in the currency of the market in which the underlying equity securities trades and that currency is different from (1) entity's functional currency, (2) functional currency of the foreign operation for which the employee provides services, and (3) payroll currency of the employee. The guidance clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should be considered an equity award assuming all other criteria for equity classification are met. The pronouncement will be effective for interim and annual periods beginning on or after December 15, 2010, and will be applied prospectively. Affected entities will be required to record a cumulative catch-up adjustment for all awards outstanding as of the beginning of the annual period in which the guidance is adopted. This amendment is not expected to have a material impact on the Company's financial statements.

- In April 2010, the FASB issued Update No. 2010-17, or ASU 2010-17, Revenue Recognition—Milestone Method, which updates the guidance currently included under topic 605, Revenue Recognition. ASU 2010-17 provides guidance on defining the milestone and determining when the use of the milestone method of revenue recognition for research or development transactions is appropriate. It provides criteria for evaluating if the milestone is substantive and clarifies that a vendor can recognize consideration that is contingent upon achievement of a milestone as revenue in the period in which the milestone is achieved, if the milestone meets all the criteria to be considered substantive. ASU 2010-17 is effective for milestones achieved in fiscal years, and interim periods within those years, beginning after June 15, 2010 and should be applied prospectively. Early adoption is permitted. The Company is currently evaluating the potential impact, if any, of the new accounting guidance on its consolidated financial statements.

- In April 2010, the FASB issued an authoritative pronouncement on effect of denominating the exercise price of a share-based payment award in the currency of the market in which the underlying equity securities trades and that currency is different from (1) entity's functional currency, (2) functional currency of the foreign operation for which the employee provides services, and (3) payroll currency of the employee. The pronouncement clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition, and therefore should be considered an equity award assuming all other criteria for equity classification are met. The pronouncement is for interim and annual periods beginning on or after December 15, 2010, and will be applied prospectively. Affected companies will be required to record a cumulative catch-up adjustment for all awards outstanding as of the beginning of the annual period in which the guidance is adopted. This amendment is not expected to have a material impact on the Company’s financial statements.

- The FASB issued Accounting Standards Update (ASU) No. 2010-20. Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, on July 21, 2010, requiring companies to improve their disclosures about the credit quality of their financing receivables and the credit reserves held against them. The extra disclosures for financing receivables include aging of past due receivables, credit quality indicators, and the modifications of financing receivables. This guidance is effective for interim and annual periods ending on or after December 15, 2010. The Company does not expect the adoption of this update to have a material impact on their consolidated financial position, results of operations or cash flows.

A variety of proposed or otherwise potential accounting standards are currently under study by standard setting organizations and various regulatory agencies. Due to the tentative and preliminary nature of those proposed standards, management has not determined whether implementation of such proposed standards would be material to the consolidated statements.

4. Concentrations of Business and Credit Risk

The majority of the Company’s bank accounts in banks located in the PRC 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 People’s Republic of China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between the U.S. dollar 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 in the PRC. As of December 31, 2010 and December 31, 2009, the Company maintains cash in the US, in a financial institution insured by the FDIC that has approximately $960,000 and $14,636,000, respectively, in funds in excess of FDIC insured amounts.

For the yearsended December 31, 2010 and 2009, there are three distributed agents are Heilongjing, Jinlin and LiaoNing who are accounted for 15.3%, 13.5% and 14.2%, respectively of total revenue for year 2010 and 14.8%, 11.3% and 14.0% , respectively of total revenue for year 2009.

Payments of dividends may be subject to some restrictions.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	December 31,	
	2010	**2009**
Cash on Hand -China	**$4,588**	**$1,398**
Bank Deposits-China	**69,640,382**	**49,898,143**
Bank Deposits-US	**1,460,445**	**15,135,791**
	$71,105,415	**$65,035,332**

6. Account Receivables

Accounts Receivables are all unsecured and due upon demand:

	December 31, 2010	**December 31, 2009**
Mobi Advertising	$ -	$966,308
Resellers of Debit Card	-	308,419
	$ -	$1,274,727

The Mobi advertising is an agent for the Company’s on-line advertising business with trade terms of a six-month receivable period. The others are receivables from sales of prepaid cards to re-sellers.

7. Prepaid Expenses

Prepaid Expenses consist of the following:

	December 31, 2010	December 31, 2009
Prepaid rent	$253,073	$305,853
Prepaid teachers and online material	401,962	294,622
Prepaid services and professional fees	78,543	81,441
Prepaid advertising	712,700	1,812,973
Other prepaid expenses	1,388,698	197,421
	$2,834,976	$2,692,310

8. Note receivable

On March 4, 2011, the Company entered into a management agreement (the "Management Agreement") with Nanchang Institute of Technology ("NIT"), a vocational training institution based in Nanchang, People's Republic of China. Pursuant to the Agreement, the Company will manage the daily operations of NIT for ten years for an annual management fee of RMB 10 million. The management fee is payable on a quarterly basis and in the event of late payment, a late fee is imposed. Additionally, a liquidated damage of RMB 50 million will be paid by the party that defaults on the agreement.

In connection with the Management Agreement, the Company entered in to a loan agreement (the "Loan Agreement"), pursuant to which the Company will loan NIT RMB 50 million to build training facilities and NIT will repay the RMB 50 million in ten years from the date NIT receives the principal. The loan has an annual interest rate of 20% and the interests will be waived by the Company if NIT makes all payments under the Management Agreement in a timely manner. In the event it prepays the principal and interests that are not due, NIT is subject to a prepayment penalty in the amount of 25% of the loan principal. The loan is secured by the assets of certain guarantors.

The Company loaned $7,172,301 to NIT on December 15, 2010. The principal on the loan is due in ten years. NIT will pay the Company $1,510,000(RMB 10,000,000) annually under the Management Agreement. The full amount of the loan is due in ten years at the termination of the Agreement. The loan bears interest at 20% per annum. However, no interest will be charged if the Company receives the annual management fee. As of December 31, 2010, the amount of note receivable was $7,172,301. Subsequently to March 29, 2013, NIT repaid the loan principal of RMB 50 million and accrued interests. On the same date, terminate the Management Agreement and the Loan Agreement were terminated upon mutual consent of NIT and the Company.

9. Property and Equipment

Property and Equipment consist of the following:

	December 31, 2010	**December 31, 2009**
Buildings	$4,593,799	$4,455,227
Transportation vehicles	273,513	192,189
Communication equipment	5,968,091	3,148,972
Furniture and fixtures	3,653,441	2,030,114
	14,488,844	9,826,502
Less: Accumulated Depreciation	(4,542,115)	(3,236,520)
	$9,946,729	$6,589,982

For the years ended December 31, 2010 and 2009, depreciation expenses totaled $1,305,595 and $1,041,213 respectively.

As of December 31, 2010 the Company does not have any land use rights agreements in the PRC for the office buildings owned by the Company.

In the PRC, land use rights, are the legal rights for an entity to use lands for a fixed period of time. The PRC adopted a dual land tenure system, under which, land ownership is independent of land use rights. The land is either owned by the state ("State Land") or by rural collective economic organization ("Collective Land").

10. Intangibles

Intangibles of the Company consist of franchise rights on educational products, software, and New Shifan's expertise, magazine rights and contest operation rights.

Franchise Rights

The franchise rights owned by the Company consist of the following:

- The ACCP training course is an authority for training software engineers under authorized training procedures with authorized textbooks.

- The BENET training course is an authority for training internet engineers under authorized training procedures with authorized textbooks.

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Capitalized Software

The Capitalized software of the Company consists of all the Company's software, among which two main ones are the following:

- The Usage rights for job seekers is software to help university students to search jobs, post their resumes, and communicate with potential employers.

- The Usage right for learners is software to help elementary and secondary students to do assignments, test papers, and get instructions from teachers.

New Shifan's Expertise

New Shifan was created to continue the operations of Beijing Shifan Culture Communication Co., Ltd. ("Beijing Shifan"). The Company paid the original owner of Beijing Shifan RMB 7 million (approximately $1,056,970) to acquire their expertise, in (i) science and math education at the secondary education level, (ii) the rights to continue publishing the magazine "Senior High School Students Mathematic, Physics, and Chemistry" and (iii) the rights to a nationwide contest for middle school and high school students. The Company has considered the RMB 7 million (approximately $1,056,970) as an intangible asset whose evaluation and life has not been finalized as of December 31, 2010, accordingly no amortization has been recorded. There has been minimal operating activity from New Shifan for twelve months ended December 31, 2010.

Intangibles consist of the following:

	December 31, 2010	**December 31, 2009**
ACCP training course	$815,377	$790,975
BENET training course	60,398	58,591
Usage rights- Job Seekers	452,987	439,430
Usage rights- Learners	301,991	292,954
Others	975,521	622,364
New Shifan Expertise	762,212	-
	3,368,486	2,204,314
Less: accumulated amortization	(1,853,105)	(1,466,553)
Intangible, Net		

$1,515,381	$737,761

For the year ended December 31, 2010 and 2009, amortization expenses totaled $386,552 and $574,753 respectively.

Amortization of intangible assets over the next five years excluding the New Shifan intangible asset for which a life has not yet been determined is as follows:

Year Ended December 31,	
2010	$130,859
2011	240,377
2012	82,257
2013	20,994
2014	13,165
	$487,652

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11. Deferred revenue

Deferred revenue includes subscriber prepayments and education fee prepayments. Subscriber prepayments represent 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. During the period between the purchase and use of debit cards, the unused portion of the debit card is treated as deferred revenue to the Company. Education fee prepayments represent payments for tuition for the Company's training schools, which are amortized over the term of the course. As of December 31, 2010 and December 31, 2009, the Company had deferred revenue of $1,072,371 and $1,008,884, respectively.

12. Stockholders' Equity

The Company recorded the following equity transactions during the year ended December 31, 2010.

Warrants for the acquisition of 99,583 shares of common stock were exercised, resulting in the issuance of 99,583 share of common stock. Total cash received from exercised warrants was $298,749. There were no warrants outstanding, subsequent to these warrants being exercised, as of December 31, 2010.

Options for the acquisition of 20,660 shares of common stock were exercised at price $2.90, resulting in the issuance of 20,660 share of common stock. Total cash received from exercised options were $59,901.

A total of 4,502,143 Series A Preferred Shares were converted into 1,500,714 shares of common stock.

The Company has repurchased our own stock totaling 412,536 shares for the amount of $977,072.

The cancellation of WEI's 400,000 shares.

The Company recorded the following equity transactions during the year ended December 31, 2009:

On June 5, 2009, the Company issued 17,000 common shares with par value US$0.001 per share to Red Chip Companies Inc. for its services at a market value of $46,070.

On June 18, 2009, the Company issued 16,334 common shares with par value US$0.001 per share to certain employees according to the Company's 2009 Incentive Stock Plan Inc. at a market value of $47,369.

- On October 5, 2009, the Company issued 3,162,055 common shares according to the Underwriting Agreement with Rodman & Renshaw, LLC (the "Underwriter") for the sale of 3,162,055 shares of the Company's common stock, par value $0.001 per share, for a purchase price of $5.17 per share (net of discounts and commissions), which is 94% of the per share public offering price of $5.50 per share.

- On October 16, 2009, the Company issued 434,308 common shares according to the Underwriting Agreement with Rodman & Renshaw, LLC (the "Underwriter") for the sale of additional 434,308 shares (overallotment), par value $0.001 per share, for a purchase price of $5.17 per share (net of discounts and commissions), which is 94% of the per share public offering price of $5.50 per share.

- On October 29, 2009, the Company issued 137,005 common shares with par value US$0.001 per share to certain employees according to the Company’s 2009 Incentive Stock Plan Inc. at a market value of $685,025.

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- On November 30, 2009, the Company issued 53,000 common shares with par value US$0.001 per share to Red Chip Companies Inc. for its services according to a Joint Marketing Agreement at a market value of $265,000.

- During the year ended December 31, 2009 a total of 3,095,502 Series A Preferred Shares were converted into 1,031,834 shares of common stock.

- During the year ended December 31, 2009, warrants for the acquisition of 3,497,825 shares of common stock were exercised, resulting in the issuance of 3,296,787 share of common stock, of which 364,804 shares were from cashless exercises. Total cash received from exercised warrants were $6,429,725.

<u>Options:</u>

During the year ended December 31, 2010, the Company exercise of 20,660 shares of options in the amount of $59,922.

During the year ended December 31, 2010, the total stock based compensation was $180,909.

During the year ended December 31, 2009 the Company established the 2009 Incentive Stock Plan, with 1,000,000 authorized shares to be issued or granted in stock options.

In June 2009 the Company granted options to employees to purchase 396,000 shares of common stock at prices ranging from $2.90 to $3.19 per share. All options granted have a three year life from the date of issuance and all options have an exercise price equal to the market value of the Company's commons shares on the date of grant. Of these granted options, a total of 366,000 vest in three equal tranches over two years with the first tranche vesting immediately upon the grant date, with the remaining two tranches vesting in equal amounts of shares on the following two anniversary dates from the date of grant. The remaining 30,000 options granted to an employee all vest on the first anniversary of their grant date.

In June 2009 the Company granted an option to purchase 20,000 shares of common stock at $2.90 per share, to a non-employee for legal services rendered. This option has a three year life, is fully vested on the date of grant, and has an exercise price equal to the market value for the Company's commons shares on the date of grant. The fair value of options granted in June 2009 were estimated on the date of grant using the Blacks-Scholes valuation model and the following assumptions: a risk free interest rate of 1.88%, a weighted expected life of 2.25 year, a dividend rate of 0.0%, and a weighted expected volatility of 151.88%. The Company recorded $418,984 in compensation expenses, net of related tax effects, related to these option grant for the year ended December 31, 2009.

In September 2009 the Company granted options to an employee to purchase 30,000 shares of common stock at an exercise price of $5.59 per share. All options granted have a three year life from the date of issuance and all options have an exercise price equal to the market value of the Company's commons shares on the date of grant. These options, vest in three equal tranches over two years with the first tranche vesting immediately upon the grant date, with the remaining two tranches vesting in equal amounts of shares on the following two anniversary dates from the date of grant.

The fair value of the September 2009 granted options were estimated on the date of grant using the Blacks-Scholes valuation model and the following assumptions: a risk free interest rate of 1.45%, a weighted expected life of 2.25 year, a dividend rate of 0.0%, and a weighted expected volatility of 231.45%. The Company recorded $52,467 in compensation expenses, net of related tax effects, related to this option grant for the year ended December 31, 2009.

In November 2009 the Company granted options to an independent director to purchase 10,000 shares of common stock at an exercise price of $5.40 per share. All options granted have one year life from the date of issuance and all options have an exercise price equal to the market value of the Company's commons shares on the date of grant. These options, vest immediately at the grant date.

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The fair value of the November 2009 granted options were estimated on the date of grant using the Blacks-Scholes valuation model and the following assumptions: a risk free interest rate of 0.51%, a weighted expected life of 0.75 year, a dividend rate of 0.0%, and a weighted expected volatility of 83.17%. The Company recorded $12,210 in compensation expenses, net of related tax effects, related to this option grant for the year ended December 31, 2009.

Stock option activity for the year ended December 31, 2010 is summarized as follows:

	Shares underlying options	Weighted average Exercise Price
Outstanding as of January 1, 2009	10,000	$ 3.05
Granted	456,000	3.33
Exercised	-	-
Expired / cancelled / forfeited	(10,000)	3.05-
Outstanding as of December 31, 2009	456,000	$ 3.33
Granted		
Exercised	(20,660)	3.33
Expired / cancelled / forfeited	(10,000)	5.40
Outstanding as of December 31, 2010	425,340	$

The following table summarizes the Company's stock options outstanding at December 31, 2010.

Exercise Price	Outstanding December 31, 2010	Weighted Average Remaining Life in Years	Number exercisable
$ 3.19	300,000	1.50	200,000
$ 5.59	30,000	1.73	20,000
$ 2.90	95,340	1.47	68,000
	425,340		288,000

14. Earnings Per Share

Per GAAP the Company reconciles the numerator and denominator of the basic and diluted earnings per share (EPS) computations.

For the year ended December 31, 2010, dilutive shares include shares attributable to exercisable option only.

The following reconciles the components of the EPS computation:

	Year Ended December 31, 2010		
	Income (Numerator)	**Shares (Denominator)**	**Per-share Amount**
Net income- attributable to CEU and subsidiaries	$15,262,408	31,928,992	$ 0.48
Effect of Dilutive Securities		104,334	
Diluted EPS	$5,262,408	32,033,326	$ 0.48

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	Year Ended December 31, 2009		
	Income (Numerator)	**Shares (Denominator)**	**Per-share Amount**
Net income- attributable to CEU and subsidiaries	$15,206,772	24,081,002	$ 0.63
Effect of Dilutive Securities		1,581,604	
Diluted EPS	$15,206,772	25,662,606	$ 0.59

The number of shares issuable upon the exercise of vested options and warrants excluded from the computations because their effect would be anti-dilutive totalled 30,000 for 2010, and 20,000 for 2009.

15. Commitments and Contingencies

The Company has been served with two lawsuits, The first, Apicella v. China Education Alliance Inc., et all, No 10-cv-09239 (CAS) (JCx), was filed on Dec. 2, 2010. The second, Clemens v, China Education Alliance Inc., et al, No. 10-cv09987 (JFW) (AGRx) was filed on Dec. 28, 2010, in the U.S. District Court for the Central District of California. Both lawsuits claimed, that the Company made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company’s business, operations, and prospects. Mr. Clemens purports to sue on his own behalf and on behalf of a class consisting of the Company’s stockholders (other than the defendants and their affiliates). The Company believes both these lawsuits are without merit and intends to vigorously defend itself.

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.

If a loss should occur, or if management deems that a loss is probable, relating to our Company's product or performance of our services, an accrual for such loss or losses would be recognized at such time of occurrence or determination. The Company has not accrued for any losses as of December 31, 2010 and December 31, 2009 as all payments required under the settlement agreements described above would be made by the Company's insurance carrier. The Court entered an order granting final approval to the above settlement agreement on March 13, 2013.

In August 2010, the Company entered into an investor relations consulting agreement. The agreement is for one year. The Company has the right to terminate this agreement at the six month point of the contract, with a thirty day notice. The contract stipulates a fee of $7,500 per month. During the twelve months ended December 31, 2010 the Company expensed $37,500 in consulting fees under this contract. In addition, the contract grants two separate warrants to purchase 25,000 shares for each warrant. The first warrant was granted and vested on October 1, 2010 and expires on October 2, 2012. The exercise price for this warrant was the volume weighted average price of the Company's common stock for the period from August 1, 2010 through August 10, 2010. The second warrant, if the Company proceeds with the contract after six months, is to be granted and vested on February 10, 2011 and expires on February 10, 2013. The exercise price for this warrant will be the volume weighted average price of the Company's common stock for the period from February 1, 2011 through February 10, 2011. The total warrants was exercised and converted into 99,583 common stock for the amount of $298,749.

Minimum Lease Commitments

The Company has two office leases, one is located in Harbin with a lease term that expires October of each year and the Company will renew the lease term annually. The other office is located in Beijing with a lease term for 18 months since December 2010.

The Company recorded an aggregate of $250,919 and $189,105 as rent expenses for the fiscal years ended December 31, 2010 and 2009, respectively. Rent expenses for the 5 years after December 31, 2010 are as follows:

2011	542,672
2012	287,396
2013	32,121
2014	32,121
2015	32,121
	926,431

16. Operating Risk

(a) Country risk

Currently, the Company’s revenue is mainly derived from sale of educational products and services in the People’s Republic of China. The Company hopes to expand its operations in the People’s Republic of China, however, there are no assurances that the Company will be able to achieve such an expansion successfully. Therefore, a downturn or stagnation in the economic environment of the PRC could have a material adverse effect on the Company’s financial condition.

(b) Products risk

The Company competes with larger companies, who have greater funds available for expansion, marketing, research and development and the ability to attract more qualified personnel. There can be no assurance that the Company will remain competitive with larger competitors.

(c) Exchange risk

The Company cannot guarantee that the current exchange rate will remain steady, therefore there is a possibility that the Company could post the same amount of profit for two comparable periods and because of a fluctuating exchange rate actually post higher or lower profit depending on exchange rate of Chinese Renminbi (RMB) converted to U.S. dollars on that date. The exchange rate could fluctuate depending on changes in the political and economic environments without notice.

(d) Political risk

Currently, the People's Republic of China is in a period of growth and is openly promoting business development in order to bring more business into the People's Republic of China. Additionally, the People's Republic of China allows a Chinese corporation to be owned by a United States corporation. If the laws or regulations are changed by the PRC government, the Company's ability to operate in the People's Republic of China could be affected.

(e) Key personnel risk

The Company's future success depends on the continued services of executive management in People's Republic of China. The loss of any of their services would be detrimental to the Company and could have an adverse effect on business development. The Company does not currently maintain key-man insurance on their lives. Future success is also dependent on the ability to identify, hire, train and retain other qualified managerial and other employees. Competition for these individuals is intense and increasing.

(f) Non-compliance with financing requirements

The Company might need to obtain future financing that require timely filing of registration statements, and have declared effective those registration statements, to register the shares being offered by the selling stockholders in future financing. The Company might be subject to liquidated damages and other penalties if they continue to obtain future financing requiring registration statements, and not having those registration statements filed and declared effective in a prompt manner.

17. Subsequent Events

The Company evaluates subsequent events for purposes of recognition or disclosure up through the date the financial statements are issued.

The Company was named as a defendant in two putative class action lawsuits filed in the U.S. District Court for the Central District of California. The first action, Apicella v. China Education Alliance, Inc., et al., No. 10-cv-09239 (CAS)(JCx), was filed on December 2, 2010; the second action, Clemens v. China Education Alliance, Inc., et al., No. 10-cv-09987 (JFW) (AGRx), was filed on December 28, 2010. On March 2, 2011, the two actions were consolidated as In re China Education Alliance, Inc. Securities Litigation, No. 10-cv-09239 (CAS) (JCx) (C.D. Cal.). The plaintiffs alleged that the Company and certain of its past and present officers and directors were liable under Section 10(b) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 for allegedly false and misleading statements and omissions in the Company’s public filings between 2008 and 2010 and in an investor conference call in December 2010. The plaintiffs also asserted claims under Section 20(a) of the Securities Exchange Act of 1934 against the individual defendants as persons who allegedly controlled the Company during the time the allegedly false and misleading statements and omissions were made. The Company and the individual defendants denied these allegations. The Court denied the Company's motion to dismiss the consolidated complaint on October 11, 2011, but subsequently dismissed one of the company’s directors. The parties agreed to settle the consolidated class action lawsuit, and the Court entered an order granting final approval to the parties' settlement agreement on March 13, 2013. The time to appeal from the Court's final approval order has expired, with no appeals having been taken.

In addition, a derivative lawsuit, Padnos v. Yu, et al., No. 11-cv-08973 (CAS) (JCx), was filed on October 28, 2011 in the U.S. District Court for the Central District of California against certain of the Company’s past and present officers and directors. The lawsuit, filed nominally on behalf of the Company, alleged breaches of fiduciary duties based on facts similar to those alleged in the class action. That case has also been settled, and the Court granted final approval to the parties’ settlement agreement on October 15, 2012.

All payments required under the settlement agreements described above have been made by the Company's insurance carrier.

On March 21, 2011, the Company entered into an agreement (the “Agreement”) with NIT, a vocational training institution based in Nanchang, People’s Republic of China. Pursuant to the Agreement, the Company and NIT will jointly establish Nanchang Institute of Technology College of Vocational Training and Certification (the “College”). NIT will provide facilities for free and the Company will provide teachers, curriculums and certificates of trainings and pay all the expenses incurred in the teaching process. In return, NIT and the Company will receive 20% and 80% of the total revenue of the College, respectively. The College commenced operations, under the control of the Company on March 21, 2011.

On March 14, 2011, the Company entered into a Share Transfer Agreement with the shareholder (the “Shareholder”) of Harbin Tianlang Culture and Education School (“Tianlang”), a tutoring school with 5,000 current students, based in Harbin, People’s Republic of China.

Pursuant to the Share Transfer Agreement, the Company agreed to purchase 60% of the equity interests of Tianlang for RMB 35 million (approximately $5.3 million). The Shareholder and the Company also agreed to provide RMB 2 million (approximately $0.3 million) and RMB 3 million (approximately 0.5 million) as working capital for Tianlang, respectively. The purchase price shall be paid as follows: RMB 1,000,000 (approximately $0.2 million) to be paid within three business days after the execution of the Agreement, RMB 6,550,000 (approximately $1 million) to be paid within two business days after completion of due diligence and the remaining purchase price to be paid upon completion of relevant procedures to effect the share transfer. In addition, after the execution of the Agreement, Tianlong shall establish a new board of directors with five directors, of which three directors shall be appointed by the Company and two directors shall be appointed by the Shareholder.

On March 29 2013, NIT repaid the loan principal of RMB 50 million and accrued interests. On March 29, 2013, terminate the Management Agreement and the Loan Agreement were terminated upon mutual consent of NIT and the Company.

18. Statutory Reserves

The Company is required to make appropriations to reserve funds, comprising the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the People’s Republic of China (the “PRC GAAP”). Appropriation to the statutory surplus reserve should be at least 10% of the after tax net income determined in accordance with the PRC GAAP until the reserve is equal to 50% of the entities’ registered capital or members’ equity. Appropriations to the statutory public welfare fund are at a minimum of 5% of the after tax net income determined in accordance with PRC GAAP. Commencing on January 1, 2006, the new PRC regulations waived the requirement for appropriating retained earnings to the statutory public welfare fund. The public welfare fund no longer requires the Company to contribute, but the Company can’t dissolve it. As of December 31, 2007, the Company appropriated 50% of its registered capital to statutory reserve for Heilongjian Zhonghe Education Training Center, and has not contributed additional funds to this subsidiary statutory surplus reserve, as they are in compliance with all applicable PRC rules. The Company’s other subsidiary has not reached their maximum contribution required for their statutory reserve; accordingly contributions were made for the year ended December 31, 2010. For the year ended December 31, 2010 and 2009, statutory reserves activity is as follows:

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	Harbin Zhong He Li Da Education Technology, Inc	Heilongjiang Zhonghe Education Training Center	Beijing Hua Yu Hui Zhong Technology Development Co., Ltd	Total
Balance – January 1, 2009	$ 1,708,371	$ 281,867	$ -	$1,990,238
Allocations to Statutory reserves	1,025,905	-	-	1,025,905
Balance – December 31, 2009	2,734,276	281,867	-	3,016,143
Allocations to Statutory reserves	715,529	-	-	715,529
Balance – December 31, 2010	$ 3,449,805	$ 281,867	$ -	$3,731,672

19. Income Taxes

On September 15, 2004, the Company executed a Plan of Exchange with ZHLD, subsequently ZHLD applied to be classified as a foreign invested company immediately after the merger, and a business license was approved for such qualification on April 8, 2005. According to PRC taxation policy, there is a 100% income tax exemption or holiday for the initial 2 years after obtaining the exemption and a 50% tax exemption or holiday for the 3 years subsequent to the initial 2 years applicable to a foreign invested company, advanced technology company or software development company. Because ZHLD falls within these categories, it enjoys this income tax exemption or holiday from April 8, 2005, the date it obtained approval as a wholly owned foreign enterprise. The Company received a 100% tax holiday for the year ended December 31, 2006, and then 50% reduction of the prevailing tax rate until the fiscal year ending December 31, 2009, subject to changes in tax rates implemented in 2007 that go into effect commencing January 1, 2008 which will have the effect of increasing the enterprise tax rate by 2% per year until it reaches and effective tax rate of 25%. For the years ended December 31, 2008, ZHLD's effective income tax rate was at 7.5%, based on having received a 50% exemption in the year ended December 31, 2007 when the prevailing effective tax rate was 30%, and an additional 50% exemption as ZHLD was a technology and software entity. During the year ended December 31, 2009, ZHLD obtained similar exemptions to those of the year ended December 31, 2008; however, the prevailing tax rate had a minimum threshold of 10% for the year ended December 31, 2009. During the year ended December 31, 2009, the Company was assessed an additional PRC enterprise income tax, above their effective rate, due to tax regulations implemented by the PRC in the year ended December 31, 2009 relating to a prior period. ZHLD management, expects ZHLD to continue being qualified as a technology and software entity, and expects to receive a 50% reduction in their statutory PRC enterprise income tax rates. The ZHLD's enterprise tax for the year ended December 31, 2010 is 15%. The Company's ZETC subsidiary is currently exempt from PRC taxation, as it operates a business enterprise engaged in educational opportunities.   The Company's other subsidiaries; BHYHZ, ZHLDBJ, and New Shifan are taxed at the PRC statutory rate (25%), and have not accrued for taxes since inception, due to recurring losses incurred since inception.

The components of income (loss) before income tax consist of approximately following:

	Year Ended December 31,	
	2010	2009
U.S Operations	(1,082,000)	(1,916,000)
Chinese Operations	17,881,000	18,328,000
	16,799,000	16,412,000

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The table below approximately summarizes the reconciliation of the Company's income tax provision computed at the statutory U.S. Federal rate and the actual tax provision:

	Years Ended December 31,	
	2010	2009
Income tax provision at Federal statutory rate	$5,919,000	$5,745,000
State income taxes, net of Federal benefit	778,000	755,000
Permanent differences	34,000	600,000
U.S. tax rate in excess of foreign tax rate	(2,627,000)	(2,676,000)
Abatement of foreign income taxes	(3,527,000)	(3,487,000)
Additional tax assessment for PRC income taxes – assessed in current period related to prior period	715,000	131,000-
Increase in valuation allowance	357,000	227,000
Tax provision	$1,649,000	$1,295,000

The Company has a U.S net operating loss carryforward of approximately $3,100,000 as of December 31, 2010 which will expire through 2030. Under IRC section 382, certain of these loss carryforward amounts may be limited due to the more than 50% change in ownerhip which took place during 2005. The deferred tax asset of approximately $1,225,000 associated with these net operating loss carryforwards was fully reserved as of December 31, 2010.

Had the above tax exemption not been in place for the years ended December 31, 2010 and 2009, the Company estimates the following proforma financial statement impact.

	Years Ended December 31,	
	2010 (Proforma)	2009 (Proforma)
Net income before tax provision	$16,910,000	$16,412,000
Less Tax provision not exempted	1,649,000	1,295,000
Less Tax provision exempted	3,527,000	3,287,000
Net income	11,734,000	11,830,000
Less: net loss attributable to noncontrolling interests	(112,000)	(90,000)
Net income – attributable to the Company	11,622,000	11,740,000

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

Exhibit No.	Description
3.1	Articles of Incorporation filed December 2, 1996 in the State of North Carolina are incorporated herein by reference to Exhibit 3.1 to the Form SB-2 Registration Statement of China Education Alliance, Inc. (File No. 333-101167) filed on November 13, 2002.
3.2	Articles of Amendment Business Corporation dated May 23, 2002 are incorporated herein by reference to Exhibit 3.2 to the Form SB-2 Registration Statement of China Education Alliance, Inc. (File No. 333-101167) filed on November 13, 2002.
3.3	Articles of Amendment Business Corporation filed November 17, 2004, changing the name of the Company from ABC Realty Co. to China Education Alliance, Inc. 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.

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3.4	Articles of Share Exchange of China Education Alliance, Inc. filed with the Department of The Secretary of State of the State of North Carolina on December 30, 2004 are incorporated herein by reference to Exhibit 3.1 filed with China Education Alliance, Inc.'s Form 10-QSB quarterly report for its quarter ended September 30, 2007 filed with the SEC on November 14, 2007.
3.5	Articles of Amendment to Articles of Incorporation filed with the Department of The Secretary of State of the State of North Carolina on October 4, 2007 are incorporated herein by reference to Exhibit 3.2 filed with China Education Alliance, Inc.'s Form 10-QSB quarterly report for its quarter ended September 30, 2007 filed with the SEC on November 14, 2007.
3.6	ByLaws of China Education Alliance, Inc. are incorporated herein by reference to Exhibit 3.3 to the Form SB-2/A Registration Statement of China Education Alliance, Inc. filed on February 7, 2003 (File No. 333-101167).
10.1	Stock Transaction Agreement between and among China Education Alliance, Inc. and the former owners of Harbin Zhonghelida Educational Technology Co., Ltd., a wholly owned subsidiary of China Education Alliance, Inc. is incorporated herein by reference to Exhibit 10.3 to China Education Alliance, Inc.'s Form 10-KSB for the year ended December 31, 2005 filed with the SEC on April 17, 2006.
10.2	Organization Constitution of Heilongjiang Zhonge Education Training Center dated June 15, 2005, a wholly owned subsidiary of the Company is incorporated herein by reference to Exhibit 10.4 to China Education Alliance, Inc.'s Form 10-KSB for the year ended December 31, 2005 filed with the SEC on April 17, 2006.
10.3	Business licenses of Harbin Zhonghelinda Educational Technology Company Limited, a wholly owned subsidiary of China Education Alliance, Inc. is incorporated herein by reference to Exhibit 10.5 to China Education Alliance, Inc.'s Form 10-KSB for the year ended December 31, 2005 and filed with the SEC on April 17, 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 10.6 to China Education Alliance, Inc.'s Form 10-KSB for the fiscal year ended December 31, 2005 filed with the SEC on April 17, 2006.
10.5	Consulting Agreement with Conceptual Management Limited dated March 20, 2006 is incorporated herein by reference to Exhibit 10.8 to China Education Alliance, Inc.'s Form 10-KSB for the fiscal year ended December 31, 2005 filed with the SEC on April 17, 2006.
10.6	Form of Secured Promissory Note dated September 29, 2006, by China Education Alliance, Inc. is hereby incorporated herein by reference to Exhibit 10.1 to the Form 8-K current report of China Education Alliance, Inc. filed with the SEC on November 1, 2006.
10.7	Stock Pledge Agreement dated September 29, 2006, between Xiqun Yu and SBI Advisors, LLC, as Agent is hereby incorporated herein by reference to Exhibit 10.2 to the Form 8-K current report of China Education Alliance, Inc. filed with the SEC on November 1, 2006.
10.8	Guarantee Agreement dated as of September 29, 2006, among Harbin Zhong He Li Da Jiao Yu KeJi You Xian Gong Si, Heilongjiang Zhonghe Education Training Center, Harbin Zhonghelida Educational Technology Company Limited, Xinqun Yu, and SBI Advisors, LLC, as Agent is hereby incorporated herein by reference to

Exhibit 10.3 to the Form 8-K current report of China Education Alliance, Inc.filed with the SEC on November 1, 2006.

10.9 Investor Relations Agreement dated November 1, 2006, between China Education Alliance, Inc. and 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.

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10.10	Purchase Contract dated December 28, 2006, between Harbin Zhonghelida Education &Technology Co., Ltd. and Harbin Nangang Compass Computer Training School is incorporated herein by reference to Exhibit 10.11 to China Education Alliance, Inc.'s Form 10-KSB for the fiscal year ended December 31, 2006 filed with the SEC on April 2, 2007.
10.11	Securities Purchase Agreement dated as of May 8, 2007, among China Education Alliance, Inc., 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 China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.12	3% Convertible Note issued to Barron Partners, LP is hereby incorporated herein by reference to Exhibit 99.2 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on May 15, 2007
10.13	3% Convertible Note issued to Eos Holdings is hereby incorporated herein by reference to Exhibit 99.3 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.14	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 China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.15	Registration Rights Agreement, dated May 8, 2007, among China Education Alliance, Inc. , 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 China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.16	Closing Escrow Agreement, dated May 8, 2007, among China Education Alliance, Inc. , Barron Partners, LP, 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 China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.17	Letter agreement dated May 8, 2007 between China Education Alliance, Inc. and SBI Advisors LLC, and related payment letter is hereby incorporated herein by reference to Exhibit 99.7 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on May 15, 2007.
10.18	Amendment dated as of May 23, 2007 to the Securities Purchase Agreement dated May 8, 2007, among China Education Alliance, Inc., 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 China Education Alliance, Inc. y filed with the SEC on June 7, 2007.
10.19	3% Convertible Note issued to Barron Partners, LP is hereby incorporated herein by reference to Exhibit 99.2 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on June 7, 2007.
10.20	Closing Escrow Agreement, dated May, 2007, among China Education Alliance, Inc., Barron Partners, LP, 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 China Education Alliance, Inc. filed with the SEC on June 7, 2007.
10.21	Letter Agreement dated November 30, 2007, among China Education Alliance, Inc. , Barron Partners, LP and the other investors named therein is incorporated herein by reference to Exhibit 10.22 to the Form SB-2/A Registration Statement of China Education Alliance, Inc. (File No. 333-146023) filed with the SEC on December 7, 2007.

10.22	Extracts of Office Rental Agreement dated January 28, 2006 by and between Vocational Education Organization Service Centre and Beijing Hua Yu HuiZhong Technology Development Co., Limited is incorporated herein by reference to Exhibit 10.22 to the Form 10-KSB of China Education Alliance, Inc. filed with the SEC on March 31, 2008.

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10.23	House Lease Contract dated January 29, 2006 by and between Beijing Yi De Zhi Bang Technology Limited and Beijing Huayuhuizhong Technology Development Co., Ltd. is incorporated herein by reference to Exhibit 10.24 to the Form 10-KSB of China Education Alliance, Inc. filed with the SEC on March 31, 2008.
10.24	Employment Contract between Zhonghelida Education Technology Co., Ltd and Xiqun Yu dated August 9, 2004 is incorporated herein by reference to Exhibit 10.27 to the Form 10-KSB of China Education Alliance, Inc. filed with the SEC on March 31, 2008.
10.25	Employment Contract between Zhonghelida Education Technology Co., Ltd and Chunqing Wang dated August 9, 2004 is incorporated herein by reference to Exhibit 10.28 to the Form 10-KSB of China Education Alliance, Inc. filed with the SEC on March 31, 2008.
10.26	Underwriting Agreement dated as of September 29, 2009 by and between the Registrant and Rodman & Renshaw, LLC, is incorporated herein by reference to Exhibit 10.1 to the Form 8-K of China Education Alliance, Inc. filed with the SEC on September 30, 2009.
10.27	Employment Agreement dated as of March 1, 2011 between Alice Lee Rogers and the Registrant filed with the SEC on March 4, 2011.
10.28	Share Transfer Agreement dated March 14, 2011 between the shareholder of Harbin Tianlang Culture and Education School and the Registrant is incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on March 17, 2011.
10.29	Agreement dated March 21, 2011 between the Company and Nanchang Institute of Technology is incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on March 21, 2011.

21.1	List of Subsidiaries is incorporated herein by reference to Exhibit 21.1 to the Annual Report on Form 10-K filed with the SEC on April 15, 2011.
23.1	Consent of Independent Registered Public Accounting Firm.*
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

*Filed herewith

*Furnished herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CHINA EDUCATION ALLIANCE, INC.
Date: March 31, 2014	By: /s/ Xiqun Yu Xiqun Yu President and Chief Executive Officer (Principal Executive Officer)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Xiqun Yu Xiqun Yu	President, Chief Executive Officer, and Chairman of the Board of Directors (Principal Executive Officer)	March 31, 2014
/s/ Cloris Li Cloris Li	Chief Financial Officer (Principal Financial and Accounting Officer)	March 31, 2014
/s/ Liansheng Zhang Liansheng Zhang	Director	March 31, 2014
/s/ Xiaohua Gu Xiaohua Gu	Director	March 31, 2014