

CHINA EDUCATION ALLIANCE INC.  
Form 10SB12G  
June 30, 2006

**U.S. Securities and Exchange Commission**

**Washington, D.C. 20549**

**Form 10-SB**

**GENERAL FORM FOR REGISTRATION OF SECURITIES  
OF SMALL BUSINESS ISSUERS**

**Under Section 12(b) or (g) of the Securities Exchange Act of 1934**

**CHINA EDUCATION ALLIANCE, INC.**

(Name of Small Business Issuer in its charter)

North Carolina

56-201236

(State or other jurisdiction of incorporation  
or organization)

(I.R.S. Employee Identification No.)

86 Heng Shan Rd. Kun Lung Shopping Mall, Harbin  
The People's Republic of China 150090

(Address of principal executive offices)

Issuer's telephone number: 011-86-451-8233-5794

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

Title of each class to  
be registered  
n/a

Name of each exchange on which  
each class is to be registered  
n/a

Securities to be registered under Section 12(g) of the Act:

Common Stock, \$.001 par value

(Title of class)

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## **PART I**

### **Item 1. Description of Business.**

#### **General**

China Education Alliance, Inc. (the "Company") is a technology company engaged in the online education industry in China. The Company is a holding company which conducts its business primarily through its wholly owned subsidiaries, Harbin Zhong He Li Da Education Technology, Inc. ("ZHLD") and the Zhonghe Education Training Center. The Company conducts educational services through three main channels: a large educational online portal, an education center and educational software and media. The Company's educational services and material focus on supplemental education and test preparation material for grades kindergarten through high school.

The Company's products include on-line test preparation materials, teachers' materials, study guides, and audio recordings of popular classes. The products' scope includes pre-school education, elementary and middle school education, vocational education, continuing education, enterprise training education, intelligence authentication, agricultural labor education, education for the disabled, first-time employment education, re-employment education, study abroad, and education for aged people. The Company provides its services and materials through distance learning technology, education resource development, education project planning and promotion, teaching platforms, class development and scheduling, education information and technical services.

The Company works in conjunction with several independent and state owned entities allowing the Company to enhance the services and products of the Company and to promote its products and services. The Company has historical relationships with the Chinese vocational educational society, the government education information center, the authentication training center, and other government departments and education entities. The Company further promotes its materials and services through cooperation with more than one thousand professors, over two thousand membership schools, over three thousand school principals, more than fifty thousand school teachers, one hundred news media outlets, and twenty scholarly research organizations.

#### **Corporate History**

CEDA was incorporated in the State of North Carolina on December 2, 1996 under the name of ABC Realty Co. to engage in residential real estate transactions as a broker or agent. In performing these residential real estate services. The Company changed its name several times and engaged in several types of business before it became inactive.

On September 15, 2004, the Company executed a Plan of Exchange (the "Agreement"), between and among the Company, Zhong He Li Da Education Technology, Inc., a corporation organized and existing under the laws of the People's Republic of China ("ZHLD"), the shareholders of ZHLD (the "ZHLD Shareholders"), and Duane Bennett, Chairman of the Board and controlling shareholder of the Company.

At the closing of the Plan of Exchange which occurred on December 13, 2004, the Company issued the ZHLD Shareholders 55,000,000 shares of common stock of the Company, or 95% of the Company's then outstanding common stock, in exchange for all of the shares of capital stock of ZHLD owned by the ZHLD shareholders. Immediately upon the closing, the Company cancelled 11,000,000 shares of common stock controlled by Duane Bennett, and, as a result, the Company had 2,915,000 shares issued and outstanding before the issuance of the 55,000,000 new shares. Payment for the cancelled shares was made by ZHLD and/or the ZHLD Shareholders in the amount of \$400,000 in the aggregate (composed of \$300,000 in cash and \$100,000 in a promissory note).

On November 17, 2004, the Company changed its name to China Education Alliance, Inc.

### **Educational Operations**

Since the reverse merger was consummated, the Company has continued the operations of ZHLD.

ZHLD is a technology company engaged in the online education industry in The People's Republic of China ("China"). There is a significant market in China for education and education related products. It has been reported that the education budget established by the Chinese government is over \$60 billion (U.S.) every year, which accounts for 3.41% of the GDP in China. It is expected to increase. Currently, ZHLD owns www.edu-chn.com, which is the only website in China having copyrights of examination materials of Chinese primary schools and middle schools, and ZHLD legally provides target users in the age group of 7 to 18 years with downloadable examination materials. ZHLD plans to provide other services such as text book downloading and SMS. When the visits to its web site increase, and its membership base expands, ZHLD plans to expand its products into the advanced education market and adult education market.

ZHLD has developed some successful educational software independently and owns a database covering all levels of basic education. Through cooperation with local education committees and schools, ZHLD started its business in the City of Harbin in Heilongjiang Province in northern China. ZHLD's plans for expansion of its business operations include the following:

- Buildup the infrastructure to ensure fast access and to satisfy the volume that would develop with increasing demand
- Boost market shares via nation-wide advertising campaigns;
- Invest in human resources to improve the quality of its services; and
- Open branch offices in key cities.

Competition. The Company has been taking steps to address the competition in the Chinese online educational industry. In order to increase market share and revenue, the Company has determined to establish offices in Beijing, Shanghai, Xian, Hubei and Guangzhou where the educational industry is comparatively well-established. It will continue to make use of its strategy of growth through the use of computer web sites. The Company will also take the following steps to increase sales and implement its marketing strategy:

1. Market penetration,
2. Establish resale networks, and
3. Seek strategic partners

It is expected that there will be more competitors from both domestic and overseas companies because the Chinese educational market is large and growing. In order to avoid or minimize the potential of low-price competition in the future, the Company has determined to increase its competitiveness in the educational markets.

Employees. The Company's employees are located in northern China. The Company has 99 employees, including 33 employees at its education training center and 22 marketing employees. The need for employees and their availability will be addressed in connection with the business development plans of the Company in the ordinary course of its business.

Regulation. No government approvals are required to conduct the Company's principal operations, and the Company is not aware of any probable governmental regulation of our business sector in the near future.

Additional Financing. The Company may need to raise additional funds to meet operating requirements in the future. If the Company raises additional funds through the issuance of common stock or debt securities, such securities may also have rights to the Company's common stock, such as warrants or options. Shareholders may experience dilution from the exercise of these equity instruments. The Company cannot be certain that additional financing will be available when required or at all.

Lack of Property and General Liability Insurance. 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 its financial condition and operations.

Risk of Doing Business in China. Doing business in China involves various risks including internal and international political risks, evolving national economic policies as well as financial accounting standards, expropriation and the potential for a reversal in economic conditions. Since the late 1970s, the government of China has been reforming the Chinese economic system. These reforms have resulted in significant economic growth and social progress. These policies and measures may from time to time be modified or revised. Adverse changes in economic policies of the Chinese government or in its laws and regulations could have a material adverse effect on the overall economic growth of China, and could adversely affect our business operations.

Risks of China Foreign Currency Conversion Policies. The Chinese currency, "Renminbi", is not a freely convertible currency, which could limit our ability to obtain sufficient foreign currency to support our business operations.

Fluctuations in the exchange rate between the Chinese currency and the United States dollar could adversely affect our operating results.

The functional currency of our operations in China is "Renminbi". Results of our operations are translated at average exchange rates into United States dollars for purposes of reporting results. As a result, fluctuations in exchange rates may adversely affect our expenses and results of operations as well as the value of our assets and liabilities. Fluctuations may adversely affect the comparability of period-to-period results. Although we may use hedging techniques in the future (which we currently do not use), we may not be able to eliminate the effects of currency fluctuations. Thus, exchange rate fluctuations could have a material adverse impact on our operating results and stock prices.

In order for the China subsidiaries of the Company to pay dividends to the Company, a conversion of Renminbi into US dollars is required. Under current Chinese law, the authorities may impose restrictions that could have a negative impact in the future on the conversion process and upon the ability of the Company to meet its cash needs, and to pay dividends to its shareholders. However, the principal subsidiary of the Company is presently classified as a wholly-owned foreign enterprise ("WOFE") in China that have verifiable foreign investment in the PRC, funding having been made through an official China banking channel. Because the subsidiary of the Company qualifies for treatment as a WOFE, the subsidiaries can declare dividends and their funds can be repatriated to the Company in the United States under current laws and regulations in China.



Dividends. Dividends paid to the Company, as the U.S. parent company, would be subject to U.S. corporate income tax. The Company has not accrued any tax liability associated with the possible payment of dividends to the U.S. parent company.

No Bank Deposit Insurance. The Company maintains certain bank accounts in China that are not insured and are not protected by FDIC insurance or other insurance.

## **Item 2. Management's Discussion and Analysis or Plan of Operation.**

This Form 10-SB contains forward-looking statements that involve substantial risks of uncertainties. You can identify these statements by forward-looking words such as "may", "will", "expect", "plans", "intends", "anticipate", "believe", "estimate", "continue" or similar words and are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You should read statements that contain these words carefully because they discuss its future expectations, contain projections of its future results of operations or of its financial condition or state other "forward-looking" information. The Company believes that it is important to communicate its future expectations to its investors. However, there may be events in the future that the Company is not able to accurately predict or control. The factors listed above in the section captioned "Risk Factors", as well as any differ materially from the expectations the Company describe in its forward-looking statements.

China Education Alliance, Inc. was incorporated in the State of North Carolina on December 2, 1996 under the name of ABC Realty Co. to engage in residential real estate transactions as a broker or agent. The business the Company operates changed into education related internet high tech business in the People's Republic of China after the Company acquired Zhong He Li Da Education Technology, Inc. (ZHL D), a technology company engaged in the online education industry in China, after the Company acquired ZHL D in December 2004.

The Company's core business involves the following three main areas: large educational on line portal, education center, and educational software and media. CED A has developed and growing income through all three business areas in the year of 2005. The Company owns the only website, [www.edu-chn.com](http://www.edu-chn.com), in China having copyrights of examination materials for elementary schools, middle schools, and high schools for target users from age 7 through 18. The company also twice, in March and July, expanded the scope of the website to increase the contents and extend the e-business horizon in 2005. The education center not only provides middle and high school related classes but also occupational training. We have achieved 167,640 training head count as of end of 2005. Electronic book and other education related media are also developed. The Company has been developing its business in the area of Harbin city of Heilongjiang province and its nearby regions in 2005.

In 2006, the company will:

- Strengthen its markets in Heilongjiang province.
- Develop markets in Jilin and Liaoning province.
- Further improve web portal and on line business network.
- Develop and/or improve on line occupational education.

## Critical Accounting Policies and Estimates

This management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in conformity with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenue and expenses and contingent assets and liabilities. Actual results may differ from those estimates and judgments under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant estimates and judgments used in the preparation of our consolidated financial statements.

**Property and Equipment.** We include all property and equipment in the financial statements at cost and make provisions for depreciation of property and equipment using the straight-line method. Estimated useful lives generally range from three to ten years for our furniture and equipment, 5 to 10 years for leasehold improvements, 20 years for the buildings. Changes in circumstances, such as changes in our curricula and technological advances, may result in the actual useful lives of our property, equipment and capitalized software differing from our estimates. We regularly review and evaluate the estimated useful lives of our property and equipment and capitalized software. Although we believe our assumptions and estimates are reasonable, deviations from our assumptions and estimates could produce a materially different result.

**Recognition of Revenue.** The revenues from the general and specific study cards are recorded when they were either actually used or expired since these study cards are not refundable after the expiration date. Tuition revenue is recorded on a straight-line basis over the length of the applicable course. The revenues from e-business, advertisement, and domain name service are recorded when the services were provided and completed.

## Results of Operations

The Company has revenue of \$3,112,732 for the period ending December 31, 2005. The revenues were primarily from the sales of debit cards for use to obtain educational materials posted on the Company's website at the time of the delivery, when title to the products transfers and the customer bears the risk of loss. New revenues developed in 2005 such as tuitions, advertisement, and other e-business also contributed one third of the total revenues. The following table sets forth the percentage relationship of certain statement of income data to revenue for the periods indicated.

Description	2004		2005	
Revenue	\$ 51,700	100.0%	\$ 3,112,732	100.0%
Cost of Goods Sold	\$ 17,073	33.0%	\$ 1,017,374	32.7%
Operating Expense	\$ 139,795	270.4%	\$ 417,043	13.4%
Net Income	\$ (109,721)	-212.2%	\$ 1,703,186	54.7%

The cost of goods sold includes material cost for the debit cards, teaching material cost, e-business commission, prelection cost, and depreciation, etc. The percent of cost of goods sold relative to the revenue remained about the same in the cost structure.



Operating expense includes staffing in support to the website and education center, depreciation, professional services, advertisement, etc. The percentage of operation expenses relative to the revenue was 13.4% indicating good utilization efficiency.

The Company is profitable in 2005 with net income to be 54.7% of revenue. We believe this trend will continue to grow as we expand out market as planned.

#### Liquidity and Capital Resources

Liquidity is a measure of the company's cash position. It keeps a company in business in the short run. The Company has net increase in cash of \$507,703 in the year ended December 31, 2005. Net cash provided by operating activities were \$2,299,422.

Cash flows used in investing activities were \$1,765,982 for the period ending December 31, 2005. Cash flows for the 2005 were for the purchase of fixed assets.

Cash flows provided by financing activities were \$23,763 for the period ending December 31, 2005. Cash flows for the 2005 were \$23,763 in proceeds from notes payable.

The Company's liquidity position is fairly good. The operating income was sufficient to support all the expenses and investment needs for the year 2005. If profitability and revenue continually move higher, the Company should be able to elevate its position over time.

#### Impact of Inflation

The Company believes that inflation has had a negligible effect on operations since inception. The Company believes that they can offset inflationary increases in the cost of labor by increasing sales and improving operating efficiencies.

#### Year Ended December 31, 2005 Compared with Year Ended December 31, 2004

Revenue increased \$3,061,032, or 5920%, to \$3,112,732 in the year ended December 31, 2005 from \$51,700 in the year ended December 31, 2004, primarily due to:

A strong increase in the sales of general study cards including e-business income;  
New tuition income generated from our education center; and  
New income from advertisement, domain name service, and other technical services.

Cost of good sold increased \$1,000,301, or 5859%, to \$1,017,374 in the year ended December 31, 2005 from \$17,073 in the year ended December 31, 2004, primarily due to:

Increase volume in business operation;  
Depreciation incurred in 2005; and  
Prelection cost due to the material obtained for our database.

The 2005 cost of goods sold relative percentage to the total revenue remained about the same of 33% as in 2004.

Operating expenses increased \$277,248, or 198%, to \$417,043 in the year ended December 31, 2005 from \$139,795 in the year ended December 31, 2004, primarily due to:



Increase in staffing to support the operation; and  
Increase in depreciation incurred in 2005.

The operating expense for 2005 is 13.4% of the total revenue, a drastic decrease from factor of 2.7 in 2004, indicating our business has entered into a healthy profitable operation.

Operating income for 2005 is \$1,678,315 with gross margin of 67% compared to an operation loss in 2004. We expect the operating income continue to grow in 2006.

Demand for the products and services will be dependent on, among other things, market acceptance of the Company's on-line services and other related products. Inasmuch as a major portion of the Company's activities is the receipt of revenues from the sales of the Company's downloadable services, the Company's business operations may be adversely affected by their competitors and prolonged recession periods.

The Company's success will be dependent upon implementing their plan of operations and the risks associated with their business plans. The Company plans to strengthen their position in educational markets in China. The Company also plans to expand their operations through aggressively marketing their on-line business and Company concept.

#### New Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149)". SFAS 149 amends and clarifies certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. SFAS 149 is effective for certain contracts entered into or modified by the Company after June 30, 2003. The adoption of SFAS 149 had no impact on the Company's financial position, results of operations, or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Instruments with Characteristics of Both Debt and Equity" (SFAS 150). Statement 150 requires liability classification for three types of instruments: 1) Mandatory redeemable shares that obligate the company to deliver cash or other assets to shareholders on fixed or determinable dates; 2) Freestanding written put options and forward purchase contracts on a company's own shares that obligate the company to deliver cash or other assets, and 3) Contracts that obligate a company to issue its own shares in amounts that are unrelated to, or inversely related to, the value of the shares. The adoption of SFAS 150 had no impact on the Company's financial position, results of operations, or cash flows.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs - an amendment of ARB No. 43, Chapter 4". Statement No. 151 requires that certain abnormal costs associated with the manufacturing, freight, and handling costs associated with inventory be charged to current operations in the period in which they are incurred. The adoption of SFAS 151 had no impact on the Company's financial position, results of operations, or cash flows.

In December 2004, the FASB issued a revision of SFAS No. 123 "Share-Based Payment". The statement establishes standards for the accounting for transactions in which an entity exchanges its equity investments for goods and services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. The statement does not change the accounting guidance for share-based payments with parties other than employees.

The statement requires a public entity to measure the cost of employee service received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exception). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). A public entity will initially measure the cost of employee services received in exchange for an award of liability instrument based on its current fair value; the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation over that period.

The grant-date for fair value of employee share options and similar instruments will be estimated using option- pricing models adjusted for the unique characteristics of these instruments.

The statement is effective for the quarter beginning January 1, 2006.

SFAS No. 152 "Accounting for Real Estate Time Sharing Transactions", SFAS No. 153 "Exchange of Nonmonetary Assets", SFAS No. 154 "Accounting for Changes and Error Corrections", SFAS No. 155 "Accounting for Certain Hybrid Financing Instruments", and SFAS No. 156 "Accounting for Servicing of Final Assets" were recently issued but have no current applicability to the Company and have no effect on the consolidated financial statements.

### **Item 3. Description of Property.**

#### **Corporate Offices**

The Company's main office building is located at 80 Heng Shan Road Kun Lun Shopping Mall Harbin, P.R. China 150090, which is owned by the Company and has a total area of 4,177 square feet. This space is adequate for the Company's present and their planned future operations. No other businesses operate from this office. The Company also owns two other buildings, including a 7,196 square foot building that it is used for its education training center. The Company has no current plans to occupy other or additional office space.

### **Item 4. Security Ownership of Certain Beneficial Owners and Management.**

The following tables set forth the ownership, as of May 31, 2006, of our common stock (a) by each person known by us to be the beneficial owner of more than 5% of our outstanding common stock, and (b) by each of our directors, executive officers and our officers and directors as a group. To the best of our knowledge, all persons named have sole voting and investment power with respect to such shares, except as otherwise noted.

<b>Title of Class Name and Address</b>		<b><u>Number of Shares</u></b>	<b><u>Percent of total Outstanding Shares</u></b>
Common	Xiqun Yu 80 Heng Shan Rd. Kun Lun Shopping Mall Harbin, P.R. China 150090	38,050,000	65.7%
Common	Guilan Feng 80 Heng Shan Rd. Kun Lun Shopping Mall Harbin, P.R. China 150090	10,000,000	17.3%
Common	Chunqing Wang 80 Heng Shan Rd. Kun Lun Shopping Mall Harbin, P.R. China 150090	3,000	.001%
Common	Yuhong Yang 80 Heng Shan Rd. Kun Lun Shopping Mall Harbin, P.R. China 150090	0	0%
Common	Yanzhi Liu 80 Heng Shan Rd. Kun Lun Shopping Mall Harbin, P.R. China 150090		