CHINA EDUCATION ALLIANCE INC.
Form 10-Q
May 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20-549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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

For the transition period from ______________ to _____________

Commission file number: 333-101167

CHINA EDUCATION ALLIANCE, INC.
(Exact name of registrant as specified in its charter)

North Carolina (State or other jurisdiction of incorporation or organization)	56-2012361 (I.R.S. Employer Identification No.)
588 Heng Shan Road, Kun Lun Shopping Mall, Harbin, The People's Republic of China (Address of principal executive offices)	150090 (Zip Code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed 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. Yes x No o

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 o No o

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” ion Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o

Non-accelerated filer o Smaller reporting company x

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 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 o No o

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date:

As of May 15, 2009, there are 21,892,631 shares of $0.001 par value common stock issued and outstanding.

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Cautionary Statement Regarding Forward Looking Statements

The discussion contained in this Annual Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the United States Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the United States Securities Exchange Act of 1934, as amended, or the Exchange Act. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases like "anticipate," "estimate," "plans," "projects," "continuing," "ongoing," "target," "expects," "management believes," "we believe," "we may," "we will," "we should," "we seek," "we plan," the negative of those terms, and similar words or phrases. We base these forward-looking statements on our expectations, assumptions, estimates and projections about our business and the industry in which we operate as of the date of this Form 10-Q. These forward-looking statements are subject to a number of risks and uncertainties that cannot be predicted, quantified or controlled and that could cause actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Statements in this Form 10-Q describe factors, among others, that could contribute to or cause these differences. Actual results may vary materially from those anticipated, estimated, projected or expected should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect. Because the factors discussed in this Form 10-Q could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement made by us or on our behalf, you should not place undue reliance on any such forward-looking statement. New factors emerge from time to time, and it is not possible for us to predict which will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Except as required by law, we undertake no obligation to publicly revise our forward-looking statements to reflect events or circumstances that arise after the date of this Form 10-Q or the date of documents incorporated by reference herein that include forward-looking statements.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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China Education Alliance, Inc. and Subsidiaries
Consolidated Balance Sheets

ASSETS	March 31, 2009 (Unaudited)	December 31, 2008 (Audited)
Current Assets		
Cash and cash equivalents	$ 27,634,917	$ 23,418,098
Advances to related parties	-	142,006
Accounts receivables	1,333,146	469,607
Prepaid expenses	2,354,536	3,437,506
Total current assets	31,322,599	27,467,217
Property and equipment, net	5,913,268	6,136,252
Intangibles and capitalized software, net	728,740	864,089
Goodwill	431,825	
Advance on acquisition	233,000	932,000
Long term investment	341,946	342,357
	$ 38,971,378	$ 35,741,915
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	$ 922,431	$ 800,692
Deferred revenues	1,142,615	1,227,806
Total current liabilities	2,065,046	2,028,498
Stockholders' Equity		
Preferred stock ($0.001 par value, 20,000,000 shares authorized, of 7,597,645 and 9,397,645 issued and outstanding, respectively, aggregate liquidation preference of $2,811,129 and $3,383,152, respectively)	3,010,144	3,010,144
Common stock ($0.001 par value, 150,000,000 shares authorized, 21,892,631 and 21,892,631, issued and outstanding, respectively)	21,893	21,893
Additional paid-in capital	10,753,250	10,751,732
Statutory reserve	1,990,238	1,990,238
Accumulated other comprehensive income	2,649,996	2,688,080
Retained earnings	18,480,811	15,251,330
Total stockholders' equity	36,906,332	33,713,417
	$ 38,971,378	$ 35,741,915

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

China Education Alliance, Inc. and Subsidiaries
Consolidated Statements of Operations

	Three months ended March 31	
	2009 (Unaudited)	2008 (Unaudited)
Revenues		
Online education revenues	$ 4,829,488	$ 2,648,114
Training center revenues	2,547,099	983,632
Advertising revenues	827,492	438,671
Total revenue	8,204,079	4,070,417
Cost of Goods Sold		
Online education costs	1,199,107	386,872
Training center costs	864,650	399,590
Advertising costs	55,139	38,170
Total cost of goods sold	2,118,896	824,632
Gross Profit		
Online education gross profit	3,630,381	2,261,242
Training center gross profit	1,682,449	584,042
Advertising gross profit	772,353	400,501
Total gross profit	6,085,183	3,245,785
Operating Expenses		
Selling expenses	2,210,688	1,197,335
Administrative	254,751	307,362
Depreciation and amortization	245,453	197,658
Total operating expenses	2,710,892	1,702,355
Other Income (Expense)		
Other Income	-	521,829
Interest income	22,756	24,908
Investment loss	(411)	-
Total other income (expense)	22,345	546,737
Net Income Before Provision for Income Tax	3,396,636	2,090,167
Provision For Income Taxes	167,155	176,244
Net Income	$ 3,229,481	$ 1,913,923
Basic Earnings Per Share	$ 0.15	$ 0.09
Basic Weighted Average Shares Outstanding	21,892,631	20,898,901
Diluted Earnings Per Share	$ 0.13	$ 0.08
Diluted Weighted Average Shares Outstanding	24,425,179	24,861,752

The Components of Other Comprehensive Income		
Net Income	$ 3,229,481	$ 1,913,923
Foreign currency translation adjustment	(38,084)	839,971
Comprehensive Income	$ 3,191,397	$ 2,753,894

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

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China Education Alliance, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2009 (Unaudited)	Three Months Ended March 31, 2008 (Unaudited)
Cash flows from operating activities		
Net Income	$ 3,229,481	$ 1,913,923
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	287,338	304,081
Stock based compensation	1,518	-
Loss on equity investment	411	-
Net change in assets and liabilities		
Account receivables	(862,796)	-
Prepaid expenses and other	1,088,961	508,985
Advances to related parties	162,894	108,536
Accounts payable and accrued liabilities	121,739	(16,239)
Deferred revenue	(85,191)	(122,168)
Net cash provided by operating activities	3,944,355	2,697,118
Cash flows from investing activities		
Purchases of fixed assets	82,584	(249,653)
Cash of WEI on date of acquisition	227,964	-
Net Cash provided by (used in) investing activities	310,548	(249,653)
Cash flows from financing activities		
Warrants exercised	-	2,667,559
Net Cash Provided by Financing Activity	-	2,667,559
Effect of exchange rate on cash	(38,084)	839,971
Net increase in cash	4,216,819	5,954,995
Cash and cash equivalents at beginning of period	23,418,098	11,778,954
Cash and cash equivalents at end of period	$ 27,634,917	$ 17,733,949
Supplemental disclosure of cash flow information:		
Taxes Paid	$ -	$ 94,737
Non-cash investing and financing activities		
Conversion of preferred stock to common	$ -	$ 667,800

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

China Education Alliance, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

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 of Heilongjiang Province, People’s Republic of China, with an authorized capital of $60,386 (RMB500,000).

On September 15, 2004, ABC Realty Co. executed a Plan of Exchange with ZHLD and Duane C. Bennett, 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 distance learning development in the People’s Republic of China, to improve the efficiency and effectiveness of elementary education, higher education, vocational education, skill education, continuing education, and professional training programs, and to integrate with the international education system.

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

ZHLD also owns 70% of Beijing Hua Yu Hui Zhong Technology Development Co., Ltd. (“BHYHZ”). BHYHZ was formed on September 30, 2006 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. The minority ownership interest shares of operating losses of BHYHZ are being absorbed by the Company as the minority interest holdings have no basis in their investment. The minority losses absorbed by the Company for their BHYHZ subsidiary for the three months ended March 31, 2009 was $45,750.

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 March 31, 2009 is $341,946.

Pursuant to the terms of the supplementary agreement, Newspaper Group assigned all their rights in the “Scientific Discovery” a scientific information newspaper, with a focus on education to introduce scientific knowledge to elementary and secondary students exclusively to the joint venture company, New Discovery. In the event that the rights to “Scientific Discovery” expire because of reason other than a change in government policies and an inability to defend against or resist such changes, Newspaper Group is liable to ZHLD for twice the latter’s registered contribution in the joint venture in liquidated damages. The transaction closed on July 7, 2008 and as a result, New Discovery is now a 49.02% owned equity investment of ZHLD, referred to as a long term investment in the accompanying balance sheet.

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 own 85% equity interest, and Mr. Guang Li own 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, in particular, in running the "Million Managers Training Program". The minority ownership portion of ZHLDBJ operating losses, are being absorbed by the Company, as the management of the Company can not predict the financial ability of the minority shareholder to provide for such losses.

On April 27, 2008, the Company entered into a Share Transfer Agreement with Mr. Yuli Guo (the "Vendor") and World Exchanges, Inc. ("WEI") to purchase from Vendor seventy (70) issued and outstanding ordinary shares in WEI, representing 70% of the entire issued share capital of WEI (the "WEI Acquisition"). WEI is incorporated under the laws of Canada and was organized on December 19, 1991. WEI has been registered at 30 Denton Avenue, Apartment 2216, Toronto, Canada. In consideration for the said shares, the Company issued to the Vendor 400,000 shares of its common stock, with a market value of $2.33 per share. The Vendor retained the remaining 30% of the issued share capital of WEI. The Vendor has agreed not to transfer the shares of the Company to a third party for fifteen (15) years and to grant the Company a right of first refusal in the event the Vendor is desirous of selling such shares.

WEI provides English training programs, English test preparation courses and overseas study and consulting services in the PRC. WEI primarily operates the World Exchanges College of Language ("WECL") English Education business. The WECL has been providing English instruction for PRC students since 1988. WECL offers 1) a Qualifying Program designed to help beginners who want to learn English as a second language to develop competence in communication skills at an elementary level; 2) a Combined Studies Program which is open to students with a College degree or at least six years of high school; 3) a General English Studies Program, which is the second year of the Combined Studies program or may be taken by someone with 3 years of university courses and a minimum of 6 years of English instruction. In addition, WECL recently started providing language test preparation programs and overseas study and consulting services for students.

The PRC component of the WEI Acquisition has not been fully completed as of March 31, 2009. Due to PRC pending regulatory approval, the schools as of March 31, 2009 have not been included with the WEI Acquisition. If government approval for the acquisition of the schools is approved, the Company will include the schools as part of their WEI operations. In accordance with the WEI Acquisition, WEI established a WFOE ("wholly foreign owned enterprise"), Beijing Wei Shi Yi Tong Education Technology Co., Inc. (BJWSYT), in Beijing, PRC on December 23, 2008, whereby the WFPE shall operate as the headquarters of WEI's educational operations in the PRC. WEI contributed US$ 100,000 towards the registered capital of BJWSYT, amounting to a total registered capital of US$100,000. In return for its contribution, WEI now owns 100% equity interest in BJWSYT, which will be involved in the English language training business, in particular, in running the World Exchanges College of Language in the People's Republic of China. As a result of the WEI Acquisition, WEI is a 70% owned subsidiary of the Company. The Company will absorb any losses attributable to the minority interest, or the Vendor, as the minority interest has no basis in WEI. Included as part of the WEI Acquisition, is the acquisition of five English language schools in various parts of the PRC. As of March 31, 2009 the acquisition of the Xiamen Siming District Weishi English Training School and Private Qingdao Weishi Education Training School, have not been fully completed with regards to their title under PRC regulations. The acquisition of these two schools transaction has remained classified as an Advance on acquisition as of March 31, 2009. The acquisition of the following three schools, as another part of the WEI Acquisition has occurred as of March 31, 2009, is as follows: Beijing Weishi Success Education Technology Co., Ltd, Beijing World Exchanges English College, and Yantai WECL English College.

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WEI through BJWSYT operates five schools in the PRC; two schools in Beijing, and one school in Yantai, Xiamen and Qingdao. These schools are either fully owned or controlled by WEI. The following is a list of the schools and their related percentage of ownership by WEI:

School Name	Percentage of Ownership by WEI
Beijing Weishi Success Education Technology Co., Ltd.,	100%
Beijing World Exchanges English College	65%
Yantai WECL English College	55%
Xiamen Siming District Weishi English Training School	51%
Private Qingdao Weishi Education Training School	55%

The Company operates in one business segment, that of education, in which it operates in two revenue areas of online education and education training centers. With the Company's equity investment in New Discovery the Company is now invested in the business of publishing and circulating "Scientific Discovery", a scientific information newspaper, with a focus on education.

2 Basis of Preparation of Financial Statements

The accompanying financial statements differ from the financial statements used for statutory purposes in 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.

These notes and accompanying financial statements retroactively reflect a reverse split that became effective October 12, 2007. Fractional shares were rounded up resulting in the issuance of 216 shares in excess of the actual conversion rate of 3-to-1.

These consolidated financial statements for interim periods are unaudited. In the opinion of management, all adjustments, consisting of normal, recurring adjustments, and disclosures necessary for a fair presentation of these interim statements have been included. The results reported in these consolidated financial statements are not necessarily indicative of the results that may be reported for the entire year. The accompanying consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all information and footnotes necessary for a complete presentation of financial statements in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed on March 30, 2009.

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 and WEI). All inter-company transactions and balances were eliminated. Minority interest in the net assets and earnings or losses of BHYHZ and WEI have been absorbed by the Company as minority interest holders in these subsidiaries have no basis in their investment in these subsidiaries.

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

Cash and cash equivalents - The Company considers all highly liquid debt instruments purchased with 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. Substantially all of the Company’s cash is held in bank accounts in the PRC and is not protected by FDIC insurance or any other similar insurance. The cash that the Company maintains in US banks are insured up to $250,000 at each bank as of March 31, 2009. The Company’s cash at their US bank is in excess of statutorily insured limits as of March 31, 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
Motor vehicles	5 years
Furniture, Fixtures, and Equipment	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 March 31, 2009 and December 31, 2008.

Intangibles and Capitalized Software- Intangibles and capitalized software consist of franchise rights on educational products ,software and the transfer of minority interest in BHYHZ subsidiary for no consideration, that are amortized over the lives of the rights agreements, or their respective useful lives, which is five years ..

The Company evaluates the carrying value of intangible assets during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the intangible asset below its carrying amount. There were no impairments recorded during the three months ended March 31, 2009 and December 31, 2008.

Goodwill - As of March 31, 2009, the Company has determined that the WEI Acquisition resulted in goodwill. In accordance with the provisions of SFAS No. 142, “Goodwill and Other Intangible Assets “, goodwill is not being amortized

The Company will review goodwill and other intangibles that have indefinite lives for impairment annually or when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. Impairment testing will be based upon the best information available, including estimates of fair value which incorporate assumptions marketplace participants would use in making their estimates of fair value. In the future, if events or market conditions affect the estimated fair value to the extent that goodwill is impaired, the Company will adjust the carrying value of goodwill in the period in which the impairment occurs.

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 reporting period.

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

Revenue recognition - Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, which states that revenue should be recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the service has been rendered; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The Company believes that these criteria are satisfied 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 card is used. Unused value relating to debit cards is recognized as revenues when the prepaid debit card has expired.

Tuition from courses is recognized ratably over the period 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 revenue upon posting of an advertisement on their web-site. 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 our 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 March 31, 2009 and December 31, 2008 was $1,333,146 and $469,607, respectively.

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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. At March 31, 2009 and December 31, 2008, the Company has not established an allowance for doubtful accounts, in addition the Company has not provided for, or written off, accounts receivable for the three months ended March 31, 2009 and December 31, 2008.

Deferred Revenue - Deferred revenue reflects the unearned portion of debit cards sold and tuition payments received. Deferred revenue as of March 31, 2009 and December 31, 2008 was $1,142,615 and $1,227,806 respectively.

Advertising - The Company expenses advertising costs for television spots at the time they are aired 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 three months ended March 31, 2009 and 2008 were $311,693 and $143,617, 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 indefinitely invest these earnings in foreign operations. 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 three months ended March 31, 2009 and 2008 are related to the Company's PRC operations.

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No 109 (FIN 48). FIN 48 is intended to clarify the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Under FIN 48, evaluation of a tax position is 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 benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit where there is a greater than 50% likelihood of being realized upon ultimate settlement.

The tax position 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 benefits as of March 31, 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 benefits as of March 31, 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 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 People's Republic of China Concerning Income Tax on Enterprises promulgated by the State Council which came into effect on January 1, 1994, income tax is payable by Wholly Foreign Owned Enterprises at a rate of 15% of their taxable income. Preferential tax treatment may, however, be granted pursuant to any law or regulations from time to time promulgated by the State Council. ZHLD enjoyed a 100% exemption from enterprise income taxes during 2006 due to its classification as a "Wholly Foreign Owned Enterprise." This exemption ended on December 31, 2006, at which time ZHLD qualified under the current tax structure for a 50% reduction in the statutory enterprise income tax rates for the three years ended and ending December 31, 2007, 2008 and 2009. ZHLD income taxes for the March 31, 2009 quarter and the March 31, 2008quarter reflect income taxes at 50% of the applicable tax rate of 15%.

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 deferred tax assets or liabilities as of March 31, 2009 and December 31, 2008. In addition, the Company has not recorded a deferred tax expense for the three months ended March 31, 2009 and 2008.

Value added tax

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

Value added tax payable in the 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 value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

Software companies are eligible for a 14% VAT tax refund under PRC tax policy. The Company applied for and received VAT refunds of $0 during the three months ended March 31, 2009.

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.

All advances to related parties are non- interest bearing and due upon demand. From time to time the Company advances monies to certain related parties. All advances to related parties are non-interest bearing and due upon demand. As of March 31, 2009 and December 31, 2008 there is $0 and $142,006 advanced to related parties. The monies advanced as of December 31, 2008 consist of $80,000 advanced to a party of the Company's WEI subsidiary that had not been acquired as of December 31, 2008 and the Company advanced $62,006 to a party of ZHLDBJ prior to its formation on January 4, 2009. Subsequent to December 31, 2008 in the quarter ended March 31, 2009 both these related party advances became inter-company loans receivables and eliminated in the consolidation of the Company subsequent to the purchase and establishment of these subsidiaries.

Stock based compensation - The Company records compensation expense associated with stock-based awards and other forms of equity compensation in accordance with FASB No. 123(R): Share-Based Payment ("SFAS No. 123(R)") as interpreted by SEC Staff Accounting Bulletin No. 107. As required by SFAS no. 123 (R), the Company records the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the financial statements. 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 carrying amounts of certain financial instruments, including cash, accounts receivable, commercial notes receivable, other receivables, accounts payable, commercial notes payable, accrued expenses, and other payables approximate their fair values as of March 31, 2009 and December 31, 2008 because of the relatively short-term maturity of these 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 retained earnings.

Recent accounting pronouncements -

In May 2008, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 162, The Hierarchy of Generally Accepted Accounting Principles. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission ("SEC") of the Public Company Accounting Oversight Board's amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company does not expect SFAS No. 162 to have a material impact on the preparation of our consolidated financial statements.

In January 2009, the FASB issued FSP EITF 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99 – Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets". FSP EITF 99-20-1 changes the impairment model included within EITF 99-20 to be more consistent with the impairment model of SFAS No. 115. FSP EITF 99-20-1 achieves this by amending the impairment model in EITF 99-20 to remove its exclusive reliance on "market participant" estimates of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the "market participant" view to a holder's estimate of whether there has been a "probable" adverse change in estimated cash flows allows companies to apply reasonable judgment in assessing whether another-than-temporary impairment has occurred. The adoption of FSP EITF 99-20-1 did not have a material impact on our consolidated financial statements.

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 financial statements.

4. Concentrations of Business and Credit Risk

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

The Company is operating in 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. The Company sells its products to students who purchase debit cards which can be used to download the Company's products. Since the Company is paid in advance, it has no receivables and no significant credit risk.

For the three months ended March 31, 2009 and December 31, 2008, no single customer accounted for 10% or more of revenue.

Payments of dividends may be subject to some restrictions.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	March 31, 2009		December 31, 2008	
Cash on Hand -- China	$	8,784	$	417
Bank Deposits -- China		27,054,499		22,705,067
Bank Deposits -- US		571,634		712,614
	$	27,634,917	$	23,418,098

6. Account Receivables

Account Receivables are all unsecured and due upon demand:

	March 31, 2009		December 31, 2008	
Mobi Advertising		1,295,650		467,450
Agents in Inner Mogolia		29,216		-
Others		8,280		2,157
	$	1,333,146	$	469,607

The Mobi advertising is an agent for the company's on-line advertising business with six-month receivable period subsequent to the sale of advertising. In addition, to develop business in new areas, the Company delivered pre-debit cards to agents in Beijing, Inner Mongolia and other areas with 6 months receivables' period.

7. Prepaid Expenses

Prepaid Expenses consist of the following:

	March 31, 2009		December 31, 2008	
Prepaid rent	$	276,099	$	312,343
Prepaid teachers and online material		292,674		456,137
Prepaid services and professional fees		41,633		66,529
Prepaid outdoor advertising		1,698,414		1,939,736
Prepaid printing fee		-		633,188
Prepaid to WEI		20,888		-
Other prepaid expenses		24,828		29,573
	$	2,354,536	$	3,437,506

8. Property and Equipment

Property and Equipment consist of the following:

	March 31, 2009	December 31, 2008
Buildings	$ 3,567,302	$ 3,562,826
Transportation vehicles	191,668	191,427
Communication equipment and software	3,180,330	3,176,340
Furniture and fixtures	1,485,350	1,567,032
	8,424,650	8,497,625
Less: Accumulated Depreciation	(2,511,382)	(2,361,373)
Property and Equipment, Net	$ 5,913,268	$ 6,136,252

For the three months ended March 31, 2009 and 2008, depreciation expenses totaled $150,009 and $ 208,512, respectively. Allocated in the three months ended March 31, 2009 and 2008 depreciation expenses totaling $64,988 and $65,937, respectively were included in cost of goods sold, the remainder of depreciation expense for the respective periods is included in operating expenses.

As of March 31, 2009 the Company does not have any land use rights agreements with the PRC for the office buildings owned by the Company. The Government owns the land where the Company's buildings are located and allows the Company free usage of the land.

In the PRC, land use rights, are the legal rights for an entity to use lands for a fixed period of time. The PRC adopts 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").

9. Intangibles and Capitalized Software

Intangibles and capitalized software of the Company consist of franchise rights, software and the transfer of minority interest in the BHYHZ subsidiary for no consideration.

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.

Capitalized Software

The Capitalized software of the Company consists of 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.

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

BHYHZ intangible

In connection with the organization of BHYHZ, the Company transferred to an unrelated non-profit, a quasi-governmental entity for no consideration a 30% ownership interest in the contributed capital of BHYHZ. The value of the transferred ownership is reflected as an intangible asset, related to their customer base, that is being amortized over four years. At March 31, 2009, the intangible asset relating to this transaction was $30,041 net of amortization of $13,655. The minority ownership interest share of operating losses of BHYHZ is being absorbed by the Company as the minority interest holdings have no basis in their investment. The minority losses absorbed by the Company for the three months ended March 31, 2009 was $45,750.

Intangibles and capitalized software consist of the following:

	March 31, 2009	December 31, 2008
ACCP training course	$ 788,828	$ 787,838
BENET training course	58,432	58,358
Usage rights -- Job Seekers	438,238	437,688
Usage rights--Learner	292,158	291,792
Minority interest in BHYHZ subsidiary	43,696	43,696
	1,621,352	1,619,372
Less: accumulated amortization	(892,612)	(755,283)
	$ 728,740	$ 864,089

For the three months ended March 31, 2009 and 2008, amortization expenses totaled $137,329 and $92,838 respectively, and is recorded in operating expenses.

Future amortization of intangible assets is as follows:

Year Ended December 31,	
2009	$ 578,060
2010	260,989
2011	242,790
2012	78,726
	$ 1,160,565

10. Goodwill

On April 27, 2008 entered into the WEI Acquisition to ultimately acquire schools in the PRC that provide English training programs. The WEI Acquisition was not completed as of December 31, 2008. In the quarter ended March 31, 2008, the Company partially completed the WEI acquisition, whereby they completed under applicable PRC regulations the acquisition of three of the five schools to be purchased under the WEI Acquisition. The completion of this portion of the WEI Acquisition, in the quarter ended March 31, 2008, resulted in the Company’s recognition of goodwill of $431,825. The purchase price allocated to these three schools was $699,000. The purchase price was a reduction of advance on acquisition that was recorded for $932,000 as of December 31, 2008 for the anticipation closing for the entire WEI Acquisition. The following is an allocation of the purchase price and the assets acquired for the three schools:

Purchase price	$ 699,000
Fair value of assets acquired	(267,175)
Excess of purchase price over fair value of assets acquired allocated to goodwill	431,825

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 March 31, 2009 and December 31, 2008, the Company had deferred revenue of $1,142,615 and $1,227,806, respectively.

12. Stockholders' Equity

The Company did not record any equity transactions during the three months ended March 31, 2009.

13. Earnings Per Share

SFAS 128 requires a reconciliation of the numerator and denominator of the basic and diluted earnings per share (EPS) computations.

For the three months ended March 31, 2009 and 2008, dilutive shares include 2,532,548 and 3,113,449 shares attributable to convertible preferred stock, respectively.

The following reconciles the components of the EPS computation

	Three months ended March 31, 2009	2008
Net income available to common shareholders	$ 3,229,481	$ 1,913,923
Weighted average shares outstanding - basic	21,892,631	20,898,901
Effect of dilutive securities	2,532,548	3,962,851
Weighted average shares outstanding - diluted	24,425,179	24,861,752
Earnings per share - basic	$ 0.15	$ 0.09
Earnings per share - diluted	$ 0.13	$ 0.08

14. Commitments and Contingencies

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

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 March 31, 2009 and December 31, 2008.

In June 2008 the Company entered into an employment agreement with their CFO. The following compensation is included in the agreement: a monthly salary of $6,000 (Canadian $), an annual bonus equivalent to one month's salary, payable in December of each year, based on the monthly salary in effect on November 30 of that year, and the Company granted an option to purchase 10,000 shares of the Company's stock at $3.05 per share. These options have a one year life from the date of grant and vest in monthly installments of approximately 833 shares per month.

The fair value of the above granted option was estimated on the date of grant using the Blacks-Scholes valuation model and the following assumptions: a risk free interest rate of 2.17%, a weighted expected life of 0.75 year, a dividend rate of 0.0%, and a weighted expected volatility of 86.53%. The Company recorded $1,518 in compensation expenses, net of related tax effects, related to this option grant for the quarter ended March 31, 2008.

15. Warrants

	Shares underlying warrants	Weighted average Exercise Price
Outstanding as of December 31, 2007	5,130,210	2.03
Granted	-	-
Exercised	(1,482,801)	1.8
Expired or cancelled	-	-
Outstanding as of December 31, 2008	3,647,409	$ 2.12
Granted	-	-
Exercised	-	-
Expired or cancelled	-	-
Outstanding as of March 31, 2009	3,647,409	2.12

The following table summarizes information about stock warrants outstanding and exercisable as of March 31, 2009.

Exercise Price	Outstanding December 31, 2008	Weighted Average Remaining Life in Years	Number exercisable
$ 1.29	50,000	0.65	50,000
$ 1.50	413,156	2.91	413,156
$ 1.89	100,000	1.34	100,000
$ 2.07	2,055,516	3.10	2,055,516
$ 2.25	83,333	1.09	83,333
$ 2.40	681,035	3.10	681,035
$ 3.00	264,369	3.10	264,369
	3,647,409	2.95	3,647,409

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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 can not 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Except for the historical information contained herein, the following discussion, as well as other information in this report, contain "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the "safe harbor" created by those sections. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, and are likely to, differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors, including those discussed from time to time in this report, as well as and any risks described in the "risk factors" section of our Registration Statement filed with the U.S. Securities and Exchange Commission on Form S-1 (file no. 333-146023) and any other filings we make with the SEC. In addition, such statements could be affected by risks and uncertainties related to the ability to conduct business in the People's Republic of China, demand, including demand for our products resulting from change in the educational curriculum or in educational policies, our ability to raise any financing which we may require for our operations, competition, government regulations and requirements, pricing and development difficulties, our ability to make acquisitions and successfully integrate those acquisitions with our business, as well as general industry and market conditions and growth rates, and general economic conditions. Any forward-looking statements speak only as of the date on which they are made, should not be relied upon as representing our views as of any subsequent date and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this report.

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

Overview

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

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

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

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

Because students who purchase our on-line programs purchase debit cards for the programs that they use and students who enroll in our training classes pay their tuition before starting classes, we do not have significant accounts receivable. At March 31, 2009, we had no accounts receivable.

Our prepaid expenses account for a significant portion of our current assets - $2,354,536 or 7.52% of current assets at March 31, 2009. Prepaid expenses are primarily comprised of advance payments made for services to teachers, online materials and video, outdoor advertising and prepaid rent. At March 31, 2009, prepayments to teachers for online materials totaled $292,674, prepayment of rent expense totaled $276,099, prepayments for outdoor advertising totaled $1,698,414, prepaid services and professional fees totaled $41,633, prepaid to WEI totaled $20,888, and other prepaid expenses were $24,828. We amortize the prepayments to teachers over three months, which is the estimated life of the testing materials. The prepaid rent related to our Beijing office and dormitory rental for our training center and the prepayment to teachers decreases as the materials are delivered and the prepaid rent decreases ratably during the terms of the leases.

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

In our on-line education business segment, the principal component of cost of sales is the cost of obtaining new material to offer students as we increase the available material as well as depreciation related to computer equipment and software and direct labor cost. This business segment generates a relatively high gross margin, which was 75.2% for the three months ended March 31, 2009. The gross margin is affected by the payments we have to make to teachers for the materials. In our training center business segment, the principal components of cost of sales are faculty and the amortization of intangible assets. This business segment generates a lower gross margin than the online education business segment, which was 66.1% for the three months ended March 31, 2009. The tuition that we charge our students at our training center is subject to government approval. As a result, we may not be able to pass on to our students any increases in costs we incur, including increased costs of faculty. Our gross margin in the training center is also affected by the size of our classes.

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

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

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

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

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

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

On April 27, 2008, we entered and closed an agreement to acquire 70% (70 shares of common stock) of the issued and outstanding shares of World Exchanges Inc. ("WEI"), which provides English training programs, English test preparation courses and overseas study and consulting services through five English schools.

The five English schools are Beijing Weishi Success Education Technology Co., Ltd., Beijing World Exchanges English College, Yantai WECL English College, Xiamen Siming District Weishi English Training School and the Private Qingdao Weishi Education Training School, all of which provide English language training services in regions of Beijing, Yantai, Xiamen and Qingdao. Due to PRC pending regulatory approval, the schools are excluded from the WEI Acquisition. If government approval for the acquisition of the schools is approved, we will determine if the schools will be included as part of the WEI Acquisition at a later date.

WEI primarily operates the World Exchanges College of Language ("WECL") English Education business. The WECL has been providing English instruction for Chinese students since 1988. WECL offers 1) a Qualifying Program designed to help beginners who want to learn English as a second language to develop competence in communication skills at an elementary level; 2) a Combined Studies Program which is open to students with a College degree or at least six years of high school; 3) a General English Studies Program, which is the second year of the Combined Studies program or may be taken by someone with 3 years of university courses and a minimum of 6 years of English instruction. In addition, WECL recently started providing language test preparation programs and overseas study and consulting services for students.

WEI established a WFOE ("wholly foreign owned enterprise"), Beijing Wei Shi Yi Tong Education Technology Co., Inc (BJWSYT)., in Beijing, PRC on December 23, 2008, whereby the WFOE operates as the headquarters of WEI's educational operations in the PRC. WEI contributed US$ 100,000 towards the registered capital of BJWSYT, amounting to a total registered capital of US$100,000. In return for its contribution, WEI now owns 100% equity interest in BJWSYT. BJWSYT is involved in the English language training business, in particular, in running the World Exchanges College of Language in the People's Republic of China.

We will have a share of the revenue from the English language training courses at the five English schools and other revenue will come from their part-time, language training program, test preparation program as well as overseas study and consulting services for students.

On April 18, 2008, the Company's wholly-owned subsidiary, Harbin Zhong He Li Da Education Technology, Inc. ("ZHLD") entered into an agreement to contribute RMB3, 000,000 (approximately, $430,000) for a 49.02% equity interest of Harbin New Discovery Media Co (HNDM), which provides domestic advertising, press releasing, and agency service, software services, and business services nationwide.

HNDM has strong newspaper brand recognition and a loyal readership in the Heilongjiang province of the PRC. Through HNDM, we may create new educational material distribution channels in readable newspaper format in the future. In addition, our joint venture partner, Harbin Daily Newspaper Group has extensive expertise, resources, and relationships in the newspaper business which we may leverage to assure success in any new ventures.

HNDM's "Scientific Discovery" newspaper has two publications per week. The first one comprises elementary and secondary school tutorship materials, synchronizing with students syllabi. The second one comprises scientific information and guidance in daily life. We anticipate a weekly circulation of 150,000 sets.

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 85% equity interest, and Mr. Guang Li owns 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 is involved in the vocational training business, in particular, in running the "Million Managers Training Program".

Significant Accounting Estimates and Policies

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

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

Franchise rights, which we acquired from third parties, are amortized over the lives of the rights agreements, which is five years. We evaluate the carrying value of the franchise rights during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the intangible asset below its carrying amount. There were no impairments recorded during the quarter ended March 31, 2009.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes. This process involves estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. Our deferred tax asset is from US corporate parent and has been fully resolved. Our US parent provides corporate and administrative functions for the entire consolidated Company. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent that we establish a valuation allowance or increase this allowance in a period, we must include a tax provision or reduce our tax benefit in the statements of operations. We use our judgment to determine our provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We believe, based on a number of factors including historical operating losses, that we will not realize the future benefits of a significant portion of our net deferred tax assets and we have accordingly provided a full valuation allowance against our deferred tax assets. However, various factors may cause those assumptions to change in the near term.

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

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

Revenue is recognized in accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, which states that revenue should be recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the service has been rendered; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. We believe that these criteria are satisfied upon customers' download of prepaid study materials. Prepaid debit cards allow our subscribers to purchase a predetermined monetary amount of download materials posted on our website. Prepaid service contracts are amortized to income on a straight line basis over the length of the service contract. These service contracts allow the user to obtain materials for a designed period of time. At the time that the prepaid debit card is purchased, the receipt of cash is recorded as deferred revenue. Revenues are recognized in the month when services are actually rendered. Unused value relating to debit cards is recognized as revenue when the prepaid debit card has expired. Revenue from advertising on our website is recognized when the advertisement is run. Since advertising customers are billed monthly, there are no unearned advertising revenues.

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

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, including testing booklets, supplemental materials, and teaching video clips. We value the sales based on the actual occurrence of customer download. Therefore, the spare time between the purchase of debit cards and actual download is recorded under advances on accounts as deferred or unearned revenues. Once the download takes place, the amount is then transferred from advances on accounts to sales. Education fee prepayments represent tuition payments and payments for service contracts which are amortized over their respective terms.

We have granted a stock option "C" to our CFO, Ms. Susan Liu, to purchase a total of 10,000 shares of common stock of the company, such options to vest monthly in equal installments commencing from June 2, 2008 through June 1, 2009. We do not have any stock option or other equity-based incentive plans for our other officers, directors or key employees. To the extent that we do adopt such plans in the future, such grants will be valued at the granting date and expensed over the applicable vesting period as required by Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payments."

Recent Accounting Pronouncements

In May 2008, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 162, The Hierarchy of Generally Accepted Accounting Principles. This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission ("SEC") of the Public Company Accounting Oversight Board's amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company does not expect SFAS No. 162 to have a material impact on the preparation of our consolidated financial statements.

In January 2009, the FASB issued FSP EITF 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99 – Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets”. FSP EITF 99-20-1 changes the impairment model included within EITF 99-20 to be more consistent with the impairment model of SFAS No. 115. FSP EITF 99-20-1 achieves this by amending the impairment model in EITF 99-20 to remove its exclusive reliance on “market participant” estimates of future cash flows used in determining fair value. Changing the cash flows used to analyze other-than-temporary impairment from the “market participant” view to a holder’s estimate of whether there has been a “probable” adverse change in estimated cash flows allows companies to apply reasonable judgment in assessing whether an other-than-temporary impairment has occurred. The adoption of FSP EITF 99-20-1 did not have a material impact on our consolidated financial statements.

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 financial statements.

Results of Operations

Three Months Ended March 31, 2009 and 2008

The following table sets forth information from our statements of operations for the three months ended March 31, 2009 and 2008:

	(Dollars) Three months Ended March 31, 2009		2008	
Revenue	$ 8,204,079	100.0%	$ 4,070,417	100.0%
Cost of sales	2,118,896	25.8%	824,632	20.3%
Gross profit	6,085,183	74.2%	3,245,785	79.7%
Income from operations	3,374,291	41.1%	1,543,430	37.9%
Interest expense	-	0.0%	-	0.0%
Other income	22,756	0.3%	521,829	12.8%
Income before income taxes	3,396,636	41.4%	2,090,167	51.4%
Provision for income taxes	167,155	2.0%	176,244	4.3%
Income before minority interest	3,229,481	39.4%	1,913,923	47.0%
Net income	3,229,481	39.4%	1,913,923	47.0%

The following table sets forth information as to the gross margin for our three lines of business for the three months ended March 31, 2009 and 2008.

	(Dollars) Three months Ended March 31, 2009	2008
Online Education:		
Revenue	$ 4,829,488	$ 2,648,114
Cost of sales	1,199,107	386,872
Gross profit	3,630,381	2,261,242
Gross margin	75.2%	85.4%
Training center:		
Revenue	2,547,099	983,632
Cost of sales	864,650	399,590
Gross profit	1,682,449	584,042
Gross margin	66.1%	59.4%
Advertising:		
Revenue	827,492	438,671
Cost of sales	55,139	38,170
Gross profit	772,353	400,501
Gross margin	93.3%	91.3%

Three Months Ended March 31, 2009 and 2008

Revenue for the three months ended March 31, 2009 (the “March 31, 2009 quarter”) increased by $4,133,662, or 101.6%, to $8,204,079 compared to $4,070,417 for the three months ended March 31, 2008 (the “March 31, 2008 quarter”). The increase in revenue reflects an increase of $2,181,374 from the online education division, an increase of $1,563,467 for the training center, and an increase of $388,821 from the advertising. During 2008 and 2009, we added several new programs for vocational studies and certification programs, which provided new sources of income for our online education business.

Our overall cost of sales increased by $1,294,264 to $2,118,896 in the March 31, 2009 quarter, as compared to $824,632 in the March 31, 2008 quarter. The increase in cost of sales reflects $812,235 increase in our cost of sales for the online education division for the March 31, 2009 quarter, an increase of $465,060 from our training center division, and an increase of $16,969 for the advertising division. The online training division gross margin decreased to 75.2% in the March 31, 2009 quarter from 85.4% in the March 31, 2008 quarter due to the fact that online costs are somewhat fixed and margins increase with volume. The online training division gross margin decreased to 75.2% in March 31, 2009 quarter from 85.4% in the March 31, 2008 quarter due to the fact that online costs are somewhat fixed and margins increase with volume. During the quarter ended March 31, 2009 the fixed online cost increased from the prior quarter ended March 31, 2008, resulting in an overall decrease in gross profit for the online training division. In the training center division, gross margin increased to 66.1% in the March 31, 2009 quarter from 59.4% in the March 31, 2008 quarter due to less amortization of training center related intangible assets and decreased payments to lecturers. In the advertising division, gross margin increased to 93.3% in the March 31, 2009 quarter from 91.3% in the March 31, 2008 quarter due to increased revenue with no substantial corresponding costs associated with the increase.

Selling expenses increased by $1,013,353 or 84.6% to $2,210,688 in the March 31, 2009 quarter from $1,197,335 in the March 31, 2008 quarter. Until the middle of 2008, we did not expend much effort in marketing our services and products, which is reflected in the modest selling expenses in the March 2008 quarter. Our selling expenses include agency fees associated with increased sales of our debit cards.

Administrative expenses decreased by $52,611 or 17.1%, to $254,751 in the March 31, 2009 quarter as compared to $307,362 in the March 31, 2008 quarter. The decrease is due primarily to a decrease in salaries and decrease in travel and telephone expense.

Depreciation and amortization increased by $47,795, or 24.2%, to $245,453 in the March 31, 2009 quarter, as compared to $197,658, in the March 31, 2008 quarter. This increase was due to depreciation and amortization associated with increases in fixed assets and amortization of intangible assets.

Under current Chinese tax law, a wholly foreign owned enterprise has a 100% tax holiday for the first two years and a 50% tax holiday for the following three years. Since we became a wholly foreign owned enterprise in 2005, we benefited from a 100% tax holiday for 2005 and 2006 and, under the present law, we benefited from a 50% tax holiday for 2007 and will benefit from a 50% tax holiday for 2008 and 2009. As a result our income taxes for the March 31, 2009 quarter and the March 31, 2008 quarter reflect income taxes at 50% of the applicable tax rate of 15%.

As a result of the foregoing, we had net income of $3,229,481, or $.15 per share for basic and $.13 for diluted, for the March 2009 quarter, as compared with net income of $1,913,923, or $.09 per share for basic and $.08 for diluted, for the March 2008 quarter.

Liquidity and Capital Resources

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

At March 31, 2009, we had cash and cash equivalents of $27,634,917, an increase of $4,216,819 or 18.0%, from $23,418,098 at December 31, 2008. This increase reflected the net income generated by our business during the three months ended March 31, 2009.

Our net cash provided by operating activities was $3,944,355 for the three months ended March 31, 2009, an increase of $1,247,237 or 46.2% from $2,697,118 for the same period in 2008. This increase was mainly due to an increase in net income of $1,315,558 along with non-cash charges related to decrease of depreciation and amortization of $16,743, a decrease in deferred revenue of $36,977, an increase in account receivables of $862,796, an increase in prepaid expenses of $579,976 and an increase in accounts payable and accrued liabilities of $137,978 as compared to the three months ended March 31, 2008.

As of March 31, 2009, we had working capital of $29,257,553, an increase of $3,818,834 from working capital of $25,438,719 at December 31, 2008. We consider current working capital and borrowing capabilities adequate to cover our planned operating and capital requirements.

Accounts payable and accrued expenses as of March 31, 2009, were $922,431, an increase of $121,739, or 15.2%, from $800,692 at December 31, 2008, resulting from the increased level of cash during the quarter.

We believe that our working capital, together with our cash flow from operations will be sufficient to enable us to meet our cash requirements for the next 12 months. However, we may incur additional expenses as we seek to expand our business to offer services in other parts of the People’s Republic of China as well as to market and continue the development of our vocational training activities, and it is possible that we may require additional funding for that purpose. Although we do not have any current plans to make any acquisitions, it is possible that we may seek to acquire one or more businesses in the education field, and we may require financing for that purpose. We cannot assure you that funding will be available if and when we require funding.

The securities purchase agreement relating to our May 2007 private placement prohibits us (i) from issuing convertible debt or preferred stock until the earlier of five years from the closing or until the investors have converted or exercised and sold the securities issued in the private placement or (ii) from having debt in an amount greater than twice our EBITDA until three years from the closing or until 90% of the securities have been converted or exercised and sold. The investors in the private placement also have a right of first refusal on future financings. These provisions may make it difficult for us to raise money for our operations or for acquisitions.

Off-Balance Sheet Arrangements

As of March 31, 2009, we had no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of our Disclosure Controls

As of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have evaluated the effectiveness of our “disclosure controls and procedures” (“Disclosure Controls”). Disclosure Controls, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon their controls evaluation, our CEO and CFO have concluded that our Disclosure Controls are effective at a reasonable assurance level.

Changes in internal control over financial reporting

There have been no changes in our internal controls over financial reporting during our first fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There is no material legal proceeding pending against us.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K.

Exhibit No.	SEC Ref. No.	Title of Document
1	31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
2.	31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
3	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*
4	32.2	Certification of the Principal Financial Officer pursuant to U.S

* The Exhibits attached to this Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to liability under that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

SIGNATURES

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

	CHINA EDUCATION ALLIANCE, INC.
Date: May 15, 2009	/s/ Xiqun Yu Xiqun Yu Chief Executive Officer and President (Principal Executive Officer)
Date: May 15, 2009	/s/ Susan Liu Susan Liu Chief Financial Officer (Principal Financial and Accounting Officer)