

CHINA EDUCATION ALLIANCE INC.

Form 10-K

March 31, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

(Mark One) **FORM 10-K**

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

For the fiscal year ended December 31, 2013

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **001-34386**

**CHINA EDUCATION ALLIANCE, INC.**

(Exact name of registrant as specified in its charter)

North Carolina                      56-2012361  
State or other jurisdiction of (I.R.S. Employer

Incorporation or organization Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act: **None.**

Title of each class Name of each exchange on which registered

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

**Common Stock, \$0.001 par value**

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

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

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

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

Yes  No

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes     No

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was \$2,209,606.80 (5,620,684 shares of common stock held by non-affiliates, closing price on June 28, 2013 was \$0.40).

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

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.  Yes  No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

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

The number of shares of common stock, par value \$0.001 (the "Common Stock"), outstanding as of March 28, 2014 is 10,582,530.

DOCUMENTS INCORPORATED BY REFERENCE

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

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## **Cautionary Statement Regarding Forward Looking Statements**

The discussion contained in this Annual Report on Form 10-K (“Annual Report”) 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 intend,” “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 Annual Report. 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 Annual Report 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 Annual Report 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 Annual Report or the date of documents incorporated by reference herein that include forward-looking statements.

## **PART I**

### **Item 1. Business.**

#### **History of our Organization**

We were incorporated in North Carolina on December 2, 1996 under the name of ABC Realty Co. to engage in residential real estate transactions as a broker or agent. Following the September 2004 reverse acquisition described below, our corporate name was changed to China Education Alliance, Inc. At the time of the reverse acquisition, we were not engaged in any business activity and we were considered to be a blank-check shell.

On September 15, 2004, we entered into an agreement pursuant to which:

the stockholders of Harbin Zhong He Li Da Education Technology, Inc., a PRC corporation (“ZHLD”), transferred all of the stock of ZHLD to us and we issued to those stockholders a total of 18,333,333 shares of Common Stock, representing 95% of our outstanding Common Stock after giving effect to the transaction.

Duane Bennett, who was then our chairman of the board and controlling shareholder, caused 3,666,667 shares of Common Stock that were controlled by him to be transferred to us for cancellation, for which ZHLD or its stockholders paid \$400,000, of which \$300,000 was paid in cash and the balance was paid by a promissory note, which has been paid.

We changed our corporate name to China Education Alliance, Inc. on November 17, 2004.



## General

We are an education service company that provides on-line education and on-site training in the People's Republic of China ("PRC"). We were organized to meet what our founders believe is an unmet need for educational resources throughout the PRC. Based on the Chinese Ministry of Finance's report, *The Implementation of Central and Local Budgets for 2013*, the appropriation for education spending in 2013 was RMB3.88 trillion (approximately \$600 million), an increase of 2.7% as compared to the previous year. (source: [http://news.k618.cn/attention/201403/t20140306\\_4819342\\_1.html](http://news.k618.cn/attention/201403/t20140306_4819342_1.html)) According to Chinese tradition, a good education has always been highly valued, as the people believe that education ensures not only the future and development of the individual but also the family and the country as a whole. Thus, spending on education is one of a family's major expenditure. However, just as economic development is not even throughout the PRC, there is an uneven allocation of educational resources in the PRC. In general, only students who pass the numerous examinations, which are given at various stages of the educational process, can obtain better educational opportunities at a higher level. We believe that the examination-oriented education has created a market for products from companies that address this need.

One of our principal businesses is the distribution of educational resources through the internet. Our website, [www.edu-chn.com](http://www.edu-chn.com), is a comprehensive education network platform which is based on network video technology and large data sources of elementary education resources. We have a database comprised of such resources as test papers that were used for secondary education and university level courses as well as video on demand. Our database includes more than 500,000 exams and test papers and courseware for college, secondary and elementary schools. While some of these exams were given in previous years, we engage experienced instructors and reputable teachers to develop new exams and a methodology for taking the exams. We market this database under the name "Famous Instructor Test Paper Store." We also offer, through our website, video on demand, which includes tutoring of exam papers and exam techniques. We complement the past exams and test papers by providing an interactive platform for students to understand the key points from the papers and exams. Although a number of the resources are available through our website without charge, we charge our subscribers for services such as the Famous Instructor Test Paper Store and video-on-demand. Subscribers can purchase debit cards which can be used to pay to download material from our website. ZHLD, our wholly owned PRC subsidiary, operates this website and mainly focuses on online education.

We also provide on-site teaching and training services in northern China, which we market under the name "Classroom of Famed Instructors". We have over ten training facilities in Heilongjiang province and Beijing, which can accommodate over 8,000 students at the same time. These training facilities, which complement our on-line education services, provide classroom tutoring to our students. The courses cover primarily the compulsory education curriculum of junior, middle and high school. Except for ZHLD, ZHLDIT and BJHY (as defined below), the rest of our schools and subsidiaries provide onsite teaching classes and training services.

We have also introduced a program of on-line vocational training services, through our collaboration with the China Vocation Education Society on the website [www.360ve.com](http://www.360ve.com), which is an internet platform for training agencies and schools to offer their services. We launched [www.360ve.com](http://www.360ve.com) in September 2007 and we called this program the

“Millions of College Students Employment Crossroad” program. Through this program we offer job search capability and career planning courses for university students via our website. We developed this program in response to the high unemployment rate of PRC college graduates. Many college graduates pursue vocational training after their college education in order to find employment. Our program is designed to establish a long-term training program for college students to build connections with corporations and participate in educational programs prescribed by hiring corporations.

On January 4, 2009, our subsidiary, 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”). ZHLDBJ has a registered capital of RMB 500,000 (approximately \$73,067) and a business term of 20 years. ZHLD owns an 85% equity interest in ZHLDBJ and Mr. Guang Li owns a 15% equity interest in ZHLDBJ. ZHLD has authorized Mr. Xiqun Yu to hold 20% of its equity interest in ZHLDBJ on its behalf.

In February 2010, the Company, through ZHLD, incorporated a new company in the PRC, Beijing New Shifan Education & Technology Co., Ltd. (“New Shifan”) with a registered capital of RMB 1.95 million (approximately \$291,132). ZHLD owned a 65% equity interest in New Shifan and the other equity holders together owned a 35% equity interest in New Shifan. In September 2011, New Shifan changed its name to Beijing Hua Yu Pin Xue Education Technology Co., Ltd (“HYPX”). In October 2011, ZHLD took over the 35% equity interest from the other equity holders of HYPX with no consideration, and authorized Mr. Xiqun Yu to hold the 35% equity interest on its behalf. In November 2011, HYPX increased its share capital to RMB 2 million (approximately \$298,597). In 2012, HYPX established a wholly owned school - Beijing Xicheng District Hua Yu Pin Xue Training School, and together with a previously established wholly owned subsidiary of the Company - Beijing Shifanxuezhitang Information Science Institute, established the Company’s new brand image and reputation in several districts in Beijing. HYPX focuses on expansion of our training centers in Beijing, as well as developing extensive marketing strategy to establish new markets in other main cities.

In October 2010, the Company founded a “Hundred Celebrity Teachers Club” in the PRC. The goal of the club is to “assemble famous teachers, train students, and promote basic education in China”. The “Hundred Celebrity Teachers Club” (the “Club”) is the first dynamic educational platform aimed at promoting math, physics, and chemistry in middle and high schools in the PRC. So far, 100 teachers from 15 provinces of the PRC have joined the Club, making us one of the largest bases of well-known teachers in the PRC. As members of the Club, these famous teachers will promote high teaching standards in all three major disciplines – math, physics and chemistry – and provide consultation services to select middle and high schools in the PRC. The Club's activities include teacher training, lectures given by celebrity teachers, education evaluation, teaching cases analysis, subjects study, and international exchanges. It provides an excellent platform for teachers to explore resources, discuss hot education topics, and promote academic growth. The “Hundred Celebrity Teachers Club” is endorsed by the PRC Ministry of Education.

On March 4, 2011, the Company entered into a management agreement (the “Management Agreement”) with Nanchang Institute of Technology (“NIT”), a vocational training institution based in Nanchang, the PRC. Pursuant to the Management Agreement, the Company will manage the daily operations of NIT for ten years for an annual management fee of RMB 10 million (approximately \$1,586,445). The management fee is payable on a quarterly basis and in the event of late payment, a late fee is imposed. Additionally, a liquidated damage of RMB 50 million (approximately \$7,935,122) will be paid by the party that defaults on the agreement.

In connection with the Management Agreement, the Company entered in to a loan agreement (the “Loan Agreement”), pursuant to which the Company loaned NIT RMB 50 million (approximately \$7,935,122) to build training facilities and NIT will repay the RMB 50 million (approximately \$7,935,122) in ten years from the date NIT received the loan principal. The loan has an annual interest rate of 20% and the interests will be waived by the Company if NIT makes all payments under the Management Agreement in a timely manner. In the event it prepays the principal and interests that are not due, NIT is subject to a prepayment penalty in the amount of 25% of the loan principal. The loan is secured by the assets of certain guarantors. On March 21, 2011, the Company entered into another agreement (the “Joint College Agreement”) with NIT whereby the Company and NIT would jointly establish Nanchang Institute of Technology College of Vocational Training and Certification. Pursuant to the Joint College Agreement, NIT would provide facilities for free and the Company would providedteachers, curriculums and certificates of trainings and pay all the expenses incurred in the teaching process. In return, NIT and the Company would receive 20% and 80% of the total revenue of the College, respectively.

Pursuant to the Loan Agreement, we loaned NIT an aggregate of RMB 50 million (approximately \$7,935,122) and NIT paid us RMB 7.5 million (approximately \$1,189,689) in interest in total. Because we received 20% annual interest income due quarterly, the management fee under the Management Agreement was waived. On March 29, 2013, NIT repaid the loan principal of RMB 50 million and accrued interests, and the parties terminated the Management Agreement, the Loan Agreement and the Joint College Agreement upon mutual agreement.

On March 14, 2011, the Company entered into a Share Transfer Agreement with the sole shareholder of Harbin Tianlang Culture and Education School (“Tianlang”), a tutoring school based in Harbin, the PRC, whereby the Company acquired 60% of the equity interests in Tianlang for RMB 35 million (approximately \$5.3 million). The shareholder

and the Company also provided RMB 2 million (approximately \$0.3 million) and RMB 3 million (approximately \$0.5 million) as working capital for Tianlang, respectively. After the execution of the Share Transfer Agreement, Tianlang established a new board of directors with five directors, of which three directors were appointed by the Company and two directors were appointed by the shareholder. We are currently co-managing Tianlang with the previous majority owner.

On May 31, 2011, we purchased 100% ownership of Changchun City Chaoyang District Nuoya Foreign Languages School (“Changchun Nuoya”) and Harbin City Nangang District Nuoya Foreign Languages School (“Harbin Nuoya”), two foreign language schools based in the PRC, for RMB 8 million (approximately \$1.23 million) pursuant to the share transfer agreements with the shareholders of these two schools. As a result of the acquisition, we have licenses to offer classes in English, Japanese, Korean, Russian, German, French, Spanish, Italian, Arabic, etc. As there is little demand for non-English classes at the time being, the Company has suspended the operation of both schools. However, once the demand for non-English language classes increases, we believe we will be able to quickly offer demanded courses.

On September 26, 2011, we effected a one-for-three reverse stock split of our issued and outstanding common stock. As a result, the number of our issued and outstanding common stock was reduced from 31,747,249 shares to 10,582,530 shares.

On June 15, 2012, we, through ZHLD, incorporated a limited liability company in the PRC, Harbin Zhong He Li Da Information Technology Co., Ltd. (“ZHL DIT”) with a registered capital of RMB2 million (approximately \$ 317,405). The Company authorized Mr. Yu to hold the 100% equity interest in ZHL DIT on behalf of ZHLD because ZHL DIT is an internet technology company to be engaged in the business of providing internet value added services, an industry where foreign investment is prohibited.

Based on extensive market research and professional field study, at the beginning of 2012, the Company, through ZHLD, started to design and build a web-based information platform for its online education program - “China Education Cloud Platform”. One of the main objectives and functions of this platform is to provide a stable long distance education network including video/audio courses, cloud-based network service for teachers, students, and parents and the online educational administration services system. This platform is also intended to serve as a comprehensive cloud-based resource/space for educational institutions and individual teachers to store and share resources, market and sell their courses and services, including course management, video releases, examination system, courseware, study cards management system, etc. We will charge fees for the cloud storage and receive commissions for the courses/services the educational institutions or the teachers sell through our platform. We are in the stage of testing and modifying this platform and are currently in discussions with several potential business partners/customers to optimize the functionality of the platform.

## **Corporate Structure**

The following diagram illustrates our corporate structure as of the date of this Annual Report.

## Education Systems in the PRC

Ever since the PRC was founded in 1949, the PRC government has considered education an important component of its economic and social development. Recently, with the emergence of its market economy, education has become a priority in the PRC.

According to the Ministry of Finance's report, *The Central and Local Budgets Report for 2014*, the government will continue to promote education, science and technology, cultural reform and development. The gross domestic education expenditure of the PRC in 2014 is estimated to be approximately RMB4.13 trillion, an increase of 9.1% over the prior year's budget. (Source: [http://news.k618.cn/attention/201403/t20140306\\_4819342\\_2.html](http://news.k618.cn/attention/201403/t20140306_4819342_2.html)). For the majority of families in China, education costs represent up to 10 percent of their annual household income, second only to their food budget. We believe that many parents are willing to invest in their children for better and higher education because it is critical for their future opportunities and advancement. The educational system in the PRC is under pressure to reform and develop. On March 5, 2014, the second session of the 12th National People's Congress concluded that the PRC government sets education as a strategic priority with a focus to promote equitable education development, with continued increment of educational resource investments. The government is expected to deepen the comprehensive reform of the education, to actively reform the examination and enrollment system, encourage the development of private schools and accelerate the construction of a modern employment-oriented vocational education system.

The central government in the PRC, through the Ministry of Education, manages education in the PRC at a macro level, responsible for carrying out related laws, regulations, guidelines and policies of the central government; planning development of the education sector; integrating and coordinating educational initiatives and programs nationwide; maneuvering and guiding education reform countrywide. To a large degree, the provincial governments are left to implement basic education through development of teaching plans to supplement the required coursework from the central Ministry of Education and the funding of basic education in poorer areas. Provincial level governments have the main responsibilities for implementing basic education on a day-to-day basis.

Education is funded by a variety of sources: schools directly controlled by the central government are generally funded from the central financial pool; schools controlled by local governments are supported by local governments, the central government, and fund raising projects initiated by these schools themselves; schools sponsored by township and village governments and by public institutions are mainly financed by the sponsor institutions and subsidized by local governments; private schools are funded by sponsors (including collecting tuition from students and soliciting contributions).

In the PRC, primary and secondary education takes 12 years to complete. Primary education generally is six years, junior middle school is three years, and senior middle school is three years. Children generally begin primary school at the age of six. In 1986, the PRC passed the Compulsory Education Law, which dictates that nine years of compulsory education (grades 1 through 9) is to become mandatory and requires that provincial and local governments take the necessary steps to ensure that all students receive at least the required nine years of education. The goal of the Compulsory Education Law, as well as the subsequent guidelines, was to universalize compulsory education and to eliminate illiteracy among the PRC people. According to the Progress in China's Human Rights in 2009 issued by the information office of the State Council, the nine-year compulsory education has covered 99.7% of the PRC's population since its inception. The PRC began to aggressively incorporate English into its elementary school curriculum in 2012.

On March 3, 2004, the State Council approved and disseminated the 2003-2007 Action Plan for Invigorating Education in the 21st Century, which was formulated by the Ministry of Education. The plan recognizes the need to make the PRC competitive in the world economy and provides a blueprint to speed up educational reform and development in the PRC. The plan is based on two fundamental concepts to "Rejuvenating China through Science and Education" and "Re-invigorating China through Human Resource Development." The objectives of the plan are to establish a well-to-do society and perfect the socialistic market economy in the PRC. The plan has goals to consolidate and universalize the nine-year compulsory education program and eradicate illiteracy, to continue educational reforms, to improve the quality of education and to provide a system designed to enable the public to have access to quality education. The plan emphasizes the use of information technology in education and training.

Since 2000, the PRC government has been implementing reform in educational policy to change the orientation of the education system from one based on memory learning to a more individualized creative approach.

### **On-line Education**

Our core business is the exam-oriented education of junior, middle, and high school students. We believe that our on-line education programs are in line with the government policy of using information technology to make educational resources available throughout the country. The reforms in education policy has created a demand for new curriculum, updated educational materials and educational resources. Our portal enables our customers to access the new curriculum created by various levels of government and leading academic experts, which are endorsed by the

Ministry of Education. Our courses have the necessary certification or registration with the Ministry of Education.

Our website makes use of its internet network resources beyond the traditional teaching methods and face-to-face constraints by providing students with access to multi-media resources such as college, middle school and elementary school test papers, courseware designed to prepare students for taking the exams, and video on demand courseware. We market our website as a platform to offer services like “Famed Instructors Test Paper Store” by offering prepaid learning debit cards that can be used to purchase our products. The learners can have materials downloaded for off-line education or study the material on-line.



We believe that through our website, we can help to level the uneven distribution of education resources since our material is designed for nationwide exams and, through the Internet, students can have access to our materials nationwide. We sell our exam papers, test papers, and video on demand through our website [www.edu-chn.com](http://www.edu-chn.com). We offer both exams that were previously given as well as copyrighted exams that were developed by teachers who we hire for that purpose. These examinations cover PRC primary, middle and high school exams which are used by students primarily between the ages of six to eighteen.

We have developed some educational software and we own a database covering all levels of basic education from primary school through high school. Our plans for expansion of our business operations include the following:

- Build up the infrastructure to ensure fast access and to satisfy the volume that would develop with increasing demand;

- Develop a web-based information platform for our online education program - “China Education Cloud Platform”, to provide a stable network for long-distance education program, video/audio courses, cloud -based network service for teachers, students, and parents and the network educational administration services system and also serve as a comprehensive cloud-based resource/space for educational institutions to share resources among themselves, including course management, video releases, examination system, courseware, study cards management system, etc.;

- Develop a nation-wide advertising campaign to increase market awareness of our products and build up the Company’s reputation;

Open branch offices and training centers in key cities throughout the PRC. Even though our website is accessible from anywhere in the PRC, course materials are not standardized throughout the PRC, and there are many differences in both the course materials and the resources among the different regions in the PRC. As a result, we believe that we can best serve the students in a region by using our branch offices to employ local teachers who understand the local educational system. In this manner, we can customize our course materials to meet the local educational requirements and develop face-to-face tutorial centers to further expand our revenue.

## **Training Center**

We provide on-site teaching services under the “Big Classroom of the Famed Instructors,” our state-of-the-art training center in Harbin. At this center, we offer both classroom training and one-on-one tutoring. We have over twenty training facilities in Heilongjiang and Beijing, which can accommodate approximately 8,000 students at the same time. The courses cover each phase of compulsory education, of which junior, middle and high schools are the key parts. Our courses are designed to complement our students' daily school curriculum, and will vary depending on the age of the students as well as the progress of the class. Class subjects include Math, Physics, Chemistry, English, Chinese, etc. We charge students for each class taken. Thus, we determine our enrollment by the number of classes

that were taken during a given period of time, and not by the number of individual students. Since the term of the classes vary, we do not schedule classes on a semester basis.

### **Vocational Training**

We have introduced a program of on-line vocational training services through our collaboration with the National Association of Vocation Education of China, on the website, [www.360ve.com](http://www.360ve.com), which is an internet platform for training agencies and schools to offer their services. We launched [www.360ve.com](http://www.360ve.com) in September 2007, and we named this program our “Millions of College Students Employment Crossroad” program. Through this program we offer job search capability and career planning courses for university students. We developed this program in response to the high unemployment rate for PRC college graduates. Our program is designed to establish a long-term training program for college students to build connections with corporations and obtain educational programs prescribed by the recruiting corporations. We anticipate that we will constantly revise our materials to meet changes in the market as well as the demands of university students and graduates who enroll in our courses in order to meet their career needs.

Through our “Millions of College Students Employment Crossroad” program, we seek to address two problems - one is the need for university students to find jobs and the other is to satisfy the need of businesses to hire qualified candidates. We cooperate with businesses and other entities to enable us to communicate the requirements of potential employers, including the necessary skill sets needed, to the students who enroll in the program. In this manner, the students can learn the needs of different businesses while they are at school, and can develop educational programs in their university to enable them to meet the educational requirements of their desired field of business. This will help students seek employment after college and improve their job prospects.

The National Association of Vocation Education of China has a large number of institutional members, including provincial education bureaus and more than 1,000 vocational training schools across the PRC. We intend to expand our strategic cooperation with training agencies, especially in the aspects of joint enrollment, the exchange of resources and on-site training agencies facilities.

During December 2006, we acquired the fixed assets and franchise rights of Harbin Nangang Compass Computer Training School for their onsite training resources and became the exclusive partner of BeidaQingniao APTEC Software Engineering (“BeidaQingniao”) within Heilongjiang Province in the PRC for vocational training for three years. Our teachers and computer software experts have further updated and developed the course materials acquired from BeidaQingniao, which are used for our on-site vocational training classes on network engineering.

## **Schools**

### *Tianlang*

Established in 1999, Tianlang is a tutoring school based in Harbin, the PRC. Tianlang has a number of campuses, including the provincial government campus, Aijian campus, Yanchang campus, Harbin Institute of Technology – Science Park campus, and Hujunjie campus, etc., with the main school campus located at Jiao Hua Road, Harbin. Tianlang mainly offers examination orientated training classes for primary school, middle school, and high school students, also provides one-on-one tutoring lessons with reputable teachers. Tianlang has approximately 8,000 students enrolled in different classes or training lessons each year, and over 200 qualified teachers (including part-time teachers).

### *Harbin Nuoya and Changchun Nuoya*

Harbin Nuoya was established in 2006 and Changchun Nuoya was established in 2007. Both schools offered various language learning classes including English, Korean, Japanese, Russian, French, German, and Spanish. Both schools used to be among the largest language learning schools in their provinces, especially for non-English foreign languages. However, due to the little market demand for non-English classes, the Company has suspended course offerings in both schools, and as such, the Company has taken an impairment charge of \$2,053,205 for Chuangchun Nuoya and Harbin Nuoya for the fiscal year ended December 31, 2013.

## **Marketing**

We employ sales persons to market our products to the Ministry of Education and the provincial education commissions. Although the government agencies do not purchase our products, we need to obtain their approval for the use of our programs in connection with the curriculums in schools under their jurisdiction. We also use marketing calls to generate information to assist us in developing new educational products and opportunities. Our sales force is also actively involved with educators in developing curriculums based on our products.

We intend to use our web-based educational portal to assist us in marketing our educational products. This portal provides data and other materials for free but charges users for downloads of our products.

We also market our schools, training center and vocational training products by way of the following methods: (A) directly at conferences and events where we invite teachers, students and their families to learn about our education materials; (B) through various internet links and search engines; (C) by traditional media advertising, such as TV and newspaper advertisements; and (D) through fliers or coupons handed out to students in front of high schools and other major education institutions. We are also able to attract users by reputation and referrals from current students or users.

In 2013, we implemented a new company business strategy to emphasize on expanding our onsite training centers as part of our plan to raise awareness of our corporate brand and rebuild our reputation. We engaged professional companies to design advertisements and promotional activities. We aim to launch our China Education Cloud Platform in the near future, which we are currently in the process of fine-tuning. In the course of marketing, we have received feedback on this platform and have recognized the need to add functionalities and scale to maximize the benefits from the use of this platform. As we are close to the final product delivery, we are now adjusting our marketing plan to promote this new web-based platform.

Our total advertising and marketing expenses incurred for the years ended December 31, 2013, 2012, and 2011 were \$6,714,005, \$2,770,988, and \$649,768, respectively.

### **Major Customers**

For the years ended December 31, 2013 and 2012, we established our own sales team to market and sell our products and services directly to our end customers and did not engage any third party agency for sales. The Company does not have any major customer that contributed to a significant part of our revenue for the fiscal years of 2013 and 2012. For the years ended December 31, 2011, we appointed third party agencies/customers to market and sell our products and services, three of these agencies/customers each accounted for greater than 10% of total online education revenue during each year. A certain distribution agent/customer in each of Heilongjiang, Jilin and Liaoning Provinces accounted for 24.6%, 15.9%, and 14.9%, respectively of the total online education revenue for the fiscal year 2011.

### **Competition**

We are currently under business restructuring and transition stage, and compete with a number of PRC and international companies that sell educational materials in the PRC market. Many of our competitors are larger, more established companies, such as Longwen Education Group and TAL Education, many of which have diverse businesses and are better specialized in either online educational filed, onsite training businesses, or both. Apart from large well established educational groups, these are many new local companies that are entering the educational market in the PRC and usually offer products and services at lower costs to build up their market shares.

### **Research and Development**

Towards the end of 2012, we engaged third party internet technology companies to develop a web-based information platform for our online education program - "China Education Cloud Platform", to provide a stable long- distance

education network including video/audio courses, cloud based network service for teachers, students, and parents and the network educational administration services system and also serve as a comprehensive cloud based resource/space for educational institutions to share resources among themselves, including course management, video releases, examination system, courseware, study cards management system, etc. We have also teamed our own personnel to assist these third party developers to add functionalities to the platform. We are in the final stage of testing and modifying the platform.

## **Government Regulations**

The education industry in the PRC is heavily regulated at all levels - national, provincial and local. PRC practices and policies have limited contact with non-PRC entities in the education industry. In addition, our business is subject to numerous PRC rules and regulations, including restrictions on foreign ownership of Internet and education companies and regulation of Internet content. Many of the rules and regulations that we face are not explicitly communicated, but arise from the fact that education and the Internet are politically sensitive areas of the economy. We believe that the Ministry of Education and the provincial education commissions prefer to contract with PRC companies in the education industry. As a result, all of our PRC subsidiaries are staffed with PRC nationals. All of our revenue is derived from our PRC subsidiaries, and our success is dependent on the skill and experience of the employees of our subsidiaries.

### **Ownership Restrictions on Foreign Internet Service Providers**

The State Council promulgated the Administrative Rules on Foreign-Invested Telecommunications Enterprises in December 2001, as amended on September 10, 2008, or the FITE Rules. The FITE Rules set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecommunications enterprise. Pursuant to the FITE Rules, the ultimate capital contribution ratio of the foreign investor or investors in a foreign-funded telecommunications enterprise that provides value-added telecommunications services shall not exceed 50%. In addition, pursuant to the FITE Rules, permitted foreign investment ratio of value-added telecommunications services is no more than 50%.

In addition, for a foreign investor to acquire any equity interest in a value-added telecommunications business in the PRC, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating a track record and experience in operating a value-added telecommunications business overseas. Moreover, foreign investors that meet these requirements must obtain approvals from the PRC Ministry of Industry and Information (“MII”) and the Ministry of Commerce or their authorized local counterparts, which retain considerable discretion in granting approvals.

On July 26, 2006, MII publicly released the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecommunications Business, dated July 13, 2006, or the MII Notice, which reiterates certain provisions under the FITE Rules. According to the MII Notice, if any foreign investor intends to invest in a Chinese telecommunications business, a foreign-invested telecommunications enterprise shall be established and such enterprise shall apply for the relevant telecommunications business licenses. The MII Notice prohibits domestic telecommunication services providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in the PRC. According to the MII Notice, either the holder of a value-added telecommunication service license or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The MII Notice also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain such facilities in the regions covered by its license.

We completed our reverse merger and our corporate structure was established in September 2004, before the implementation of the FITE Rules and the MII Notice. Accordingly, we do not believe that the FITE Rules and the MII Notice apply to us. Further, even if they did, we do not believe that we are in the telecommunications business. We do not provide connectivity and internet services. We are primarily in the education business and only a portion of our education resources is disseminated to our paying customers as opposed to the general public via internet download. Finally, our vocational training services are provided in collaboration with and through a PRC company, China Vocation Education Society. We do not own or have any equity stake in China Vocation Education Society.

However, there are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including the laws and regulations governing the enforcement and performance of our contractual arrangements in the event of imposition of statutory liens, bankruptcy and criminal proceedings. Accordingly, we cannot assure you that the PRC regulatory authorities will not ultimately take a contrary view.

If the PRC government finds that the agreements that establish the structure of our operations in the PRC do not comply with PRC government restrictions on foreign investment in our industry, we could be subject to severe penalties.

Under our current corporate structure, ZHLD is our sole wholly foreign owned entity (“WFOE”).

### **Regulation of Online and Distance Education**

Pursuant to the Administrative Regulations on Educational Websites and Online and Distance Education Schools issued by the Ministry of Education (“MOE”) in 2000, or the Online Education Regulation, educational websites and online education schools may provide education services in relation to higher education, elementary education, pre-school education, teacher education, occupational education, adult education and other educational services. Under the Online Education Regulations, “Educational websites” refer to education websites providing education or education-related information services to website visitors by means of a database or an online education platform connected via the Internet or an educational television station through an Internet service provider, or ISP. Under the Online Education Regulations, “Online education schools” refer to organizations providing academic education services or training services with the issuance of various certificates.



Under the Online Education Regulations, setting up educational websites and online education schools is subject to approval from relevant education authorities, depending on the specific types of education provided. Under the Online Education Regulations, any educational website and online education school shall, upon receipt of approval, indicate on its website such approval information as well as the approval date and file number.

According to the Administrative License Law promulgated by the National People's Congress on August 27, 2003 and effective as of July 1, 2004, only laws promulgated by the National People's Congress and regulations and decisions promulgated by the State Council may establish administrative license requirements. On June 29, 2004, the State Council promulgated the Decision on Cutting Down Administrative Licenses for the Administrative Examination and Approval Items Really Necessary to be Retained, in which the administrative license for "online education schools" was retained, while the administrative license for "educational websites" was not retained.

We believe we are not required to obtain a license to operate "education websites" or "online education schools" from the MOE under the current PRC laws and regulation because we do not offer through our website education services or training programs that directly offer government accredited academic degrees or other government accreditation certifications. For the same reason, we do not believe that we need to obtain a license to operate our onsite tutoring services. Finally, there appears to be no restriction against foreign ownership and it is unclear whether foreign ownership is restricted for businesses providing such "education websites" or "online education schools".

### **Business Scope of our PRC Operating Entities**

All our PRC operating subsidiaries, including ZHLD are in the business of providing education services. Particularly, ZHLD is a holding company of all other subsidiaries and also provides online exam preparation services; Heilongjiang Zhonghe Education Training Center provides onsite vocational training and after school tutoring services; Beijing Hua Yu Hui Zhong Technology Development Co., Ltd. provides onsite vocational training, online college graduate electronic database and pre-employment training; ZHLDBJ provides onsite vocational training services; HYPX, together with its subsidiaries and Tianlang provide onsite examination-oriented training and after school tutoring services; Changchun Nuoya and Harbin Nuoya are authorized to provide onsite program for foreign language trainings. ZHLDIT initiates and designs communication platform for online education programs.

### **Intellectual Property**

The exams and other materials on our websites include material that is generally available, such as exams that were previously given, and exams and other material that were developed for us. We engage authors, who are teachers, university professors or experts in their fields, to develop materials for our websites. Under the terms of our contracts, we own the copyright on all materials produced for us by these authors. We pay each author a fixed fee and certain

percentage of sales as royalty. We also enter into agreements to use and publish educational materials developed by others, for which we pay for the use right.

## **Employees**

As of March 28, 2014, we had approximately 914 employees, consisting of 32 executives, 46 administrative and finance employees, 142 marketing and sales personnel, 451 research and development staff, 54 information technology technicians, 15 designers, 132 teaching and education administrative staff, and 42 other employees engaged in security, planning, human resources and other activities. We have no collective bargaining agreements, and we believe that we have good relations with our employees.

## **Education and Business Licenses**

Below is a list of the education and business licenses and permits of the Company and our operating subsidiaries:

Harbin Zhong He Li Da Education Technology, Inc.

1. Certificate of Approval
2. Business License
3. Tax Registration Certificate
4. Organization Code Certificate
5. State Administration of Foreign Exchange Registration Card

Heilongjiang Zhonghe Education Training Center

1. Certificate of Approval

Beijing Hua Yu HuiZhong Technology Development Co., Ltd.

1. Business License
2. Tax Registration Certificate
3. Organization Code Certificate

Zhong He Li Da (Beijing) Management Consultant Co., Ltd.

1. Business License
2. Tax Registration Certificate
3. Organization Code Certificate

Beijing Hua Yu Pin Xue Education Technology Co., Ltd.

1. Business License
2. Tax Registration Certificate
3. Organization Code Certificate

Beijing Xicheng District Hua Yu Pin Xue Training School

1. Private Non-enterprise Certificate
2. Private School License

Beijing Shifanxuezhitang Information Science Institute

1. Business License
2. Tax Registration Certificate
3. Organization Code Certificate

Harbin Tianlang Culture and Education School

1. Private Non-enterprise Certificate
2. Private School License

Harbin City Nangang District Nuoya Foreign Languages School

1. Private Non-enterprise Certificate
2. Private School License

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Changchun City Chaoyang District Nuoya Foreign Languages School

1. Private Non-enterprise Certificate
2. Private School License

Harbin Zhong He Li Da Information Technology Co., Ltd.

1. Business License
2. Tax Registration Certificate
3. Organization Code Certificate

**Item 1A. Risk Factors.**

Not applicable.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

All land in the PRC is owned by the government and cannot be sold to any individual or entity. Instead, the government grants landholders a “land use right” after a purchase price for such “land use right” is paid to the government. The “land use right” allows the holder the right to use the land for a specified long-term period of time and enjoys all the incidents of ownership of the land. The following are the details regarding our land use rights with regard to the land that we use in our business.

Our main office, which is owned by us, is located at 58 Heng Shan Road, Kun Lun Shopping Mall Harbin, Heilongjiang Province, PRC 150090, which has a total area of 669 square meters (7,198 square feet). This space is adequate for our present and our planned future operations. No other businesses operate from this office. We have no current plans to occupy other or additional office space.

The Company has 31 office leases and training center leases which expire at various dates from February 2014 through June 2018. The Company incurred an aggregate of \$1,680,150 as rent expenses for the years ended December 31, 2013. Set forth below are some of our major leases:

Our Beijing office is located in China Overseas Plaza, at the heart of Beijing's Central Business District. The total floor area is 1,477 square meters (approximately 15,898 square feet). We began using this building in December 2010. The office's lease term is 38 months from December 10, 2010 to February 9, 2014, which was extended for additional three months to May 9, 2014. The annual rent is RMB 2,924,460 (approximately \$463,950) and the rent for the extended term is RMB 841,890 (approximately \$135,918). We are currently negotiating the terms for a long term lease for this office space.

Heilongjiang Zhonghe Education Training Center ("ZHTC") has several locations for the onsite training facility, and its main office is located at 58 Heng Shan Road, Kun Lun Shopping Mall Harbin, Heilongjiang Province, PRC 150090.

HYPX's main training center is located at 311 Guanganmennei Road, Xicheng District, Beijing, PRC, which has a total area of 1,677 square meters (approximately 18,051 square feet) with an annual rent of RMB 2,203,578 (approximately \$341,407).

Tianlang has several locations, the main school is located at Jiao Hua Street, Harbin, PRC, which has a total area of 1,600 square meters (approximately 17,222 square feet) with an annual rent of RMB 304,800 (approximately \$47,224).

Harbin Nuoya is located at Level 6, 118 Xi Da Zhi Street, Harte Buidling, Harbin, PRC, which has a total area of 400 square meters (approximately 4,306 square feet) with an annual rent of RMB 220,000 (approximately \$34,085).

**Item 3. Legal Proceedings.**

On June 26, 2013, the Company served Sherb& Co. LLP (“Sherb”), its former auditor, with process in the matter captioned, China Education Alliance, Inc. v. Sherb& Co., LLP, Case # 1:13-cv-4381-RA, before the United States District Court for the Southern District of New York (the “District Court Action”). In this action, the Company alleged causes of action for: breach of contract, breach of contract implied in fact, professional negligence, negligent misrepresentation, and unjust enrichment due to Sherb’s failure to perform accounting and auditing services in compliance with PCAOB standards. The Company seeks at least \$500,000 in damages, as well as interest, attorney’s fees, costs, and expenses and disbursements incurred in bringing this action. Sherb was required to respond to these allegations on or before August 15, 2013.

On August 15, 2013, Sherb filed a motion to compel arbitration, arguing that the matter should be arbitrated in accordance with the “Dispute Resolution Procedure” contained within the engagement letters executed by the parties. After reviewing the “Dispute Resolution Procedure” contained within each of the parties’ engagement letters, which contained an arbitration clause, the parties agreed that the proper forum for the matter was arbitration before the American Arbitration Association (“AAA”). Therefore, on August 28, 2013, the parties executed a Stipulation of Dismissal (without prejudice), dismissing the District Court Action. In addition, the parties agreed to try and mediate the matter before submitting the case to arbitration before the AAA. The mediation took place in December 2013. Following the mediation, the parties are still attempting to settle. However, should the parties be unable to settle, the Company intends to file a suit against Sherb before the AAA and seek the same claims and damages as alleged in the prior District Court Action.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

*Market for Common Equity and Related Stockholder Matters*



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Our common stock is traded on OTCQX since January 25, 2012 under the symbol “CEAI.” From December 29, 2011 to January 24, 2012, our common stock was traded on OTCQB under the symbol “CEAI.” Our common stock was traded on the NYSE from January 27, 2010 to December 28, 2011 under the symbol CEU. From July 20, 2009 to January 26, 2010, our common stock was traded on the NYSE Amex under the symbol CEU. Prior to July 20, 2009, our common stock was traded on the OTC Bulletin Board under the trading symbol CEUA.OB. The table below presents the high and low bid for our common stock for each quarter from January 1, 2012 through December 31, 2013. These prices reflect inter-dealer prices, without retail markup, markdown, or commission, and may not represent actual transactions.

	High	Low
<u>Year ended December 31, 2013</u>		
1st Quarter	\$0.76	\$0.25
2nd Quarter	\$0.60	\$0.23
3rd Quarter	\$0.48	\$0.24
4th Quarter	\$0.64	\$0.23
<u>Year ended December 31, 2012</u>		
1st Quarter	\$1.35	\$0.42
2nd Quarter	\$1.56	\$0.52
3rd Quarter	\$1.39	\$0.28
4th Quarter	\$0.77	\$0.21

As of March 28, 2014, we had 10,582,530 shares of common stock outstanding and held of record by 168 stockholders. Within the holders of record of our common stock are depositories such as Cede & Co. that hold shares of stock for brokerage firms, which, in turn, hold shares of stock for beneficial owners. On March 28, 2014, the closing price of our common stock on OTCQX was \$0.29 per share.

***Securities Authorized for Issuance under Equity Compensation Plans.***

On June 18, 2009, we adopted the China Education Alliance, Inc. 2009 Incentive Stock Plan (the “2009 Plan”). We registered 333,334 shares of our common stock under the 2009 Plan on a Form S-8, effective June 18, 2009. As of March 30, 2014, 24,109 shares are still available under the 2009 Plan.

On June 21, 2011, we adopted the China Education Alliance Inc. 2011 Incentive Stock Plan (the “2011 Plan”), which was approved by our shareholders on September 18, 2011. We registered 333,334 shares of our common stock under the 2011 Plan on a Form S-8, effective July 1, 2011. As of March 28, 2014, 274,000 shares are still available under the 2011 Plan.

Set forth below is our equity compensation plan information as of December 31, 2013.

**Equity Compensation Plan Information**

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	-	-	24,109
Equity compensation plans not approved by security holders	52,667	\$ 2.67	274,000
Total	-	-	-
	52,667	\$ 2.67	298,109

***Stock Transfer Agent***

Our stock transfer agent is VStock Transfer, LLC, 77 Spruce Street, Suite 20, Cedarhurst, New York 11516.

***Dividends***

We have not declared or paid any dividends on our common stock and presently do not expect to declare or pay any such dividends in the foreseeable future. We have not yet formulated a future dividend policy in the event restrictions on our ability to pay dividends are created. Payment of dividends to our stockholders would require payment of dividends by our PRC subsidiaries to us. This, in turn, would require a conversion of *Renminbi* into US dollars and repatriation of funds to the United States. Under current PRC law, the conversion of *Renminbi* into foreign currency generally requires government consent. Government authorities may impose restrictions that could have a negative impact in the future on the conversion process and upon our ability to meet our cash needs, and to pay dividends to our stockholders. Although, our subsidiaries' classification as wholly-owned foreign enterprises under PRC law permits our subsidiaries to declare dividends and repatriate their funds to us in the United States, any change in this status or the regulations permitting such repatriation could prevent them from doing so. Any inability to repatriate funds to us would in turn prevent payments of dividends to our stockholders.

*Repurchase of Equity Securities by China Education Alliance and Affiliated Purchasers*

None.

*Recent Sales of Unregistered Securities*

None.

**Item 6. Selected Financial Data.**

Not applicable.

**Item 7. 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 consolidated financial statements and the related notes thereto, which appear elsewhere in this Annual 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 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 PRC, 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 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 property and equipment, bad debts, impairment, net 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**

We are engaged in the business of distribution of educational resources through the Internet. Our website, [www.edu-chn.com](http://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 500,000 exams, test papers and courseware for secondary and elementary schools. We generate revenue through our website by selling prepaid debit cards to our subscribers and sales of advertisement on our website.

We also provide on-site teaching and training services and have training facilities in Heilongjiang and Beijing, which can accommodate over 15,000 students each year. The courses cover primarily the compulsory education curriculum of junior, middle and high school. We also provide vocational training services and language training services. We charge tuition fees for these classes and services.

We have also introduced another online service aimed at students who want to attend vocational school. These students include high school students who do not intend to continue their education at universities and university graduates who are looking for employment. The core business for our vocation education will be in three main areas: vocation training, vocational certification, and career development for college graduates. We have collaborated with the National Vocational Education Association of China in setting up [www.360ve.com](http://www.360ve.com), which provides information regarding vocation training schools and vocation training both on-line and on-site at our training centers. We will also be involved in a project called the “Zhong He Win-Win Program”, which is designed to fit the needs of Chinese entrepreneurs and to improve their leadership, management and marketing skills. Our comprehensive business training initiatives integrate research-based, proprietary content with processes that are specifically connected to the critical business issues that most private Chinese companies are facing.

Beginning 2012, we started to design and build a web-based information platform for our online education program - “China Education Cloud Platform” to provide a stable long distance education network including video/audio courses, cloud-based network service for teachers, students, and parents and online educational administration services system. This platform is also intended to serve as a comprehensive cloud-based resource/space for educational institutions and individual teachers to store and share resources, market and sell their courses and services among themselves, including course management, video releases, examination system, courseware, study cards management system, etc. We will charge fees for the cloud storage and receive commissions for the courses/services the educational institutions or the teachers sell through our platform. This platform is in the final testing phase. We expect to launch this platform in the near future and are currently in discussions with several potential business partners/customers to optimize the functionality of the platform, as well as negotiating with advertisement companies to design a comprehensive marketing campaign to promote this platform.

Our current activities are primarily conducted in the northern part of the PRC. PRC has about 150 million students aged 6 -18, who are the target of our education services. There are about 10 million students in the 6-18 age group in the northeastern provinces of the PRC. Because we serve approximately 5% of the students in our primary market, we believe that we have great potential to grow. Our growth will depend on how we penetrate and expand our market. Our expansion may take the form of organic growth and/or acquisitions and the key to our growth will be increased student enrollment.

## **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.

Intangible assets and capitalized software, which we acquired from third parties, are amortized over the lives of the rights agreements, which are two to 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.

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 assets are from US corporate parent and have been fully reserved. 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, which we will not realize the future benefits of a significant portion of our net deferred tax assets and we have accordingly provided a full valuation allowance against our deferred tax assets. However, various factors may cause those assumptions to change in the near term.

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

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

Revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the service has been rendered; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. 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 designated period of time. At the time that the prepaid debit card is purchased, the receipt of cash is recorded as deferred revenue.

Revenue is 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 is no unearned advertising revenue.

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 advertisement revenue from advertisers. The agency is required to make their remittance for on-line advertising within six months after on-line ads are posted on our website.

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

Deferred revenue includes subscriber prepayments and education fee prepayments. Subscriber prepayments represents deferred revenue for the purchase of debit cards used to pay for the on-line 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 revenue. 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 options under the 2011 Incentive Stock Plan to our officers, directors or key employees to purchase 52,667 shares of common stock of the Company. To the extent that we do adopt such plans in the future, such grants will be valued at the grant date and expensed over the applicable vesting period.

## Recent Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective, accounting standards or pronouncements, if currently adopted, would have a material effect on the Company's consolidated financial statements.

## Results of Operations

### Years ended December 31, 2013 and 2012

The following table sets forth information from our statements of operations for the year ended December 31, 2013 and 2012:

	Year ended December 31,		Year ended December 31,	
	2013		2012	
Revenue	\$6,709,830	100.00 %	\$11,725,109	100.00 %
Cost of revenue	7,559,193	112.66 %	10,094,743	86.10 %
Gross Profit	(849,363 )	-12.66 %	1,630,366	13.90 %
Other (loss) income	(2,577,860 )	-38.42 %	296,548	2.53 %
Loss from operations	(23,055,789)	-343.61 %	(14,424,320)	-123.02 %
Netloss before income tax benefits	(25,633,649)	-382.03 %	(14,127,772)	-120.49 %
Provision for income taxes	-	0.00 %	319,255	2.72 %
Netloss - attributable to CEAI and Subsidiaries	(24,669,775)	-367.67 %	(14,062,604)	-119.94 %
Net loss	(25,633,649)	-382.03 %	(14,447,027)	-123.21 %

## Revenue

Revenue for the year ended December 31, 2013 decreased by \$5,015,279, or 43%, to \$6,709,830 from \$11,725,109 for the year ended December 31, 2012.

Revenue from the online education division includes revenue generated from online examination orientated material downloads, tutorial exercise downloads, and advertisement income. Revenue generated by the online education division decreased by \$2,370,575, or 52%, to \$2,168,803 for the year ended December 31, 2013 from \$4,539,378 for the year ended December 31, 2012.

Revenue from the training center division is comprised of tuition from examination-orientated after school training classes, language training classes, vocational training classes etc. Revenue generated by the training center division decreased by \$2,644,704, or 37% to \$4,541,027 for the year ended December 31, 2013 from \$7,185,731 for the year ended December 31, 2012.

The decline in revenue for the year ended December 31, 2013 was a result of decline in revenue across all of our business. We believe revenue was affected by external factors including slowdown in economic growth within the PRC, untruthful allegations about our businesses, and increased competition. These factors contributed to the continuous decline in interest of existing and new students, which resulted in decrease in student enrollments and led to a decline in revenue as compared to the year ended December 31, 2012. We expect to improve the performance of our online education division in the future by providing students with more competitive, up-to-date study materials and easy access. We have contracted technology companies and hired our own professional IT technicians to design and build a new web-based platform, aiming to provide the long-distance teaching services encompassing online community system and online teaching management system. Additionally, we successfully established more than ten new training centers in Beijing during the fiscal year ended December 31, 2013, and these new centers have started operations since the third quarter of fiscal 2013. We will continue to implement the new strategic business development plan for 2014, which targets to optimize the operation of existing training centers while seeking good opportunities to expand our market share. As such, we predict that our revenue will gradually recover after we launch the new web-based platform and set up more training centers.

## **Cost of Revenue**

Our overall cost of revenue decreased by \$2,535,550 or 25% to \$7,559,193 for the year ended December 31, 2013, from \$10,094,743 for the year ended December 31, 2012.

Cost of revenue for the online education business comprises cost of obtaining new materials to offer students, depreciation related to computer equipment, amortization related to software, and direct labor cost. Direct labor cost in connection with the maintenance and operation of our websites are fixed costs whereas the costs for purchase of materials and depreciation of equipment and software are variable costs. While the direct labor cost usually stays stable, the costs for purchase of materials and depreciation of equipment and software vary as we purchase new materials, equipment and software. The cost of revenue for the purchase of new materials, equipment and software does not directly correlate with revenue. We constantly have to invest in and update our content to be competitive and current in spite of falling revenue in the online education business.

The cost of revenue for the online education division decreased by \$1,899,497 or 26% to \$5,300,181 for the year ended December 31, 2013, from \$7,199,678 for the year ended December 31, 2012 primarily in tandem with the decrease in revenue. While we strive to provide high-quality and update-to-date online materials, we continue to control cost of revenue for the online education division by closely monitoring the variable costs while maintaining fixed costs at a stable level.

The principal components of cost of revenue at our training centers are rentals, direct labor costs and the depreciation expense. While the rental expenses are fixed and depreciation usually remains stable, the costs for direct labor (i.e. teachers' salary) vary. Cost of revenue for the training center division decreased by \$636,053 or 22% to \$2,259,012 for the year ended December 31, 2013 from \$2,895,065 for the year ended December 31, 2012. The decrease in cost of revenue was mainly due to a decrease in teachers' salary as our teachers are paid by the number of classes they teach and there was a decrease in classes we offered during the year ended December 31, 2013 as compared to the year ended December 31, 2012. However, the rental cost for our onsite training centers are comparatively stable and fixed, therefore, the cost of revenue for the year ended December 31, 2013 did not decrease proportionately with the decrease in revenue.

## **Gross Profit (Loss)**

The following table sets forth information as to the gross profit (loss) and gross margin for our two lines of business for the years ended December 31, 2013 and 2012:

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	Year ended December 31,	
	2013	2012
Online Education	\$	\$
Revenue	2,168,803	4,539,378
Cost of revenue	5,300,181	7,199,678
Gross profit	-3,131,378	-2,660,300
Gross margin	-144 %	-59 %

Training Center Revenue

Revenue	4,541,027	7,185,731
Cost of revenue	2,259,012	2,895,065
Gross profit	2,282,015	4,290,666
Gross margin	50 %	60 %

The gross margin for online education division is negative 144% for the year ended December 31, 2013 as compared with negative 59% for the year ended December 31, 2012. Cost of revenue didn't decrease as much as revenue primarily because depreciation and amortization expenses and staff costs remained relatively stable.

The gross margin for our training center division decreased to 50% for the year ended December 31, 2013 from 60% for the year ended December 31, 2012 because cost of revenue did not decrease as much as revenue. As part of our growth strategy, we plan to expand our onsite training network in Beijing and other major cities in order to increase our brand awareness and reputation. With the launch of our new training centers, we expect gross margin for our training center division to continue to decrease as the newly established centers may not generate sufficient revenue during the early stage.

### **Selling Expenses**

Selling expenses include advertising expense, consulting fees, sales commissions, and other expenses. Selling expenses increased by \$4,401,744 or 76% to \$10,217,712 for the year ended December 31, 2013, from \$5,815,968 for the year ended December 31, 2012. The increase in selling expenses was mainly due to the increase in advertising and marketing expenses. We incurred advertising and marketing expenses of \$7,035,270, an increase of \$4,264,282 or 154% from the year ended December 31, 2012, due to increased marketing and sales promoting activities for our newly opened onsite training schools, as well as to rebuild our brand name and reputation. Such activities include advertising through media, online and onsite promotion, handouts, brochures, etc.

### **Administrative Expenses**

Administrative expenses increased by \$1,755,520 or 25%, to \$8,701,767 for the year ended December 31, 2013, from \$6,946,247 for the year ended December 31, 2012. This was mainly due to the increase in research and development expenses relating to the development of the web-based platform, office expenses, and labor costs throughout the period. In the future we expect the administrative expenses to continue to increase because: 1) we will incur maintenance expenses for the web-based platform after it being successfully launched; 2) we will incur expenses associated with the expansion of our onsite training centers for purposes of gaining more market shares. The office and administrative expenses associated with the newly-opened onsite training centers also contributed to the increase in administrative expenses.

### **Other Income (Expense)**

Other income or expense includes loss on disposal of property and equipment, interest income and impairment loss on intangible assets. Net other expense was \$2,577,860 for the year ended December 31, 2013, an increase of \$2,874,408, as compared to net other income of \$296,548 for the year ended December 31, 2012. This is mainly due to the significant decrease in interest income as the NIT loan was repaid in March 2013, as well as the increase in impairment expenses for our intangible assets as result of management's conservative forecast.

## **Income Taxes**

The provision for income tax was nil for the years ended December 31, 2013 and December 31, 2012. In 2013, the applicable income tax rate is 15% for ZHLD, as ZHLD had been approved by the local government as being involved in a high technology industry. Otherwise, the regular PRC statutory tax rate is 25%. ZHTC, Tianlang, Changchun Nuoya, Harbin Nuoya and Beijing Xicheng District Hua Yu Pin Xue Training School are currently exempt from PRC taxation, as they operate as a business enterprise engaged in educational opportunities. The Company's other subsidiaries: BHYHZ, ZHLDBJ, HYPX, ZHLDIT and Beijing Shifanxuezhitang Information Science Institute are taxed at the PRC regular statutory rate (25%), and have not accrued taxes since inception due to recurring losses or not having generated income since inception.

### **Net Income/Loss**

As a result of the foregoing, we had net loss attributable to the Company and its subsidiaries of \$24,669,775, or negative return of \$2.33 per share basic and diluted, for the year ended December 31, 2013, as compared to net loss of \$14,062,604 or negative return of \$1.33 per share basic and diluted, for the year ended December 31, 2012.

### **Liquidity and Capital Resources**

Our current assets primarily consist of cash, prepaid expenses, and other receivable. We do not have inventory. 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 accounts receivable except some accounts receivable from our advertising business on our website. Our prepaid expenses are primarily advance payments made to teachers for on-line materials, prepaid advertisement expense, prepaid rent, and other prepayments.

As of December 31, 2013, we had working capital of \$55,325,257, a decrease of \$8,416,119, or 13% from working capital of \$63,741,376 as at December 31, 2012 due to significant net loss from operation. However, we still consider current working capital and borrowing capabilities adequate to cover our planned operating and capital requirements.

At December 31, 2013, we had cash and cash equivalents of \$56,377,154, a decrease of \$7,795,763 or 12%, from \$64,172,917 at December 31, 2012.

### **Cash Flow in Operating Activities**

Our net cash used in operating activities was \$16,258,462 for the year ended December 31, 2013, an increase of \$7,975,373 or 96% from \$8,283,089 for the year ended December 31, 2012. This increase was due to the increase in net loss from \$14,447,027 for the year ended December 31, 2012 to net loss of \$25,633,649 for the year ended December 31, 2013.

### **Cash Flow in Investing Activities**



Our cash provided by investing activities was \$7,098,505 for the year ended December 31, 2013, an increase of \$8,564,766 from cash of \$1,466,261 used in investing activities for the year ended December 31, 2012. The increase primarily resulted from the repayment of a loan from NIT, which resulted in cash inflow of approximately \$8,072,197.

### **Cash Flow in Financing Activities**

Our cash used in financing activities was \$355,177 for the year ended December 31, 2013, as compared to \$291,339 for the year ended December 31, 2012. Cash used in financing activities primarily consisted of dividends paid to noncontrolling stockholders.

We believe that our working capital 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 PRC as well as to market and continue the development of our vocational training activities. We believe we have adequate working capital to fund future growth activities. Although we do not have any current plans to make any further 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.

### **Off-Balance Sheet Arrangements**

As of December 31, 2013, we have no off-balance sheet arrangements.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 8. Financial Statements and Supplementary Data.**

**ALBERT WONG & CO.**

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ALBERT WONG

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

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

**Report of Independent Registered Public Accounting Firm**

We have audited the accompanying consolidated balance sheets of China Education Alliance, Inc. and subsidiaries ("the Group") as of December 31, 2013 and 2012 and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were not engaged to examine management's assertion about the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 and 2012 included in the Company's Item 9A "Controls and Procedures" in the Annual Report on Form 10-K and, accordingly, we do not express an opinion thereon.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Education Alliance, Inc. as of December 31, 2013 and 2012 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

**China Education Alliance, Inc. and Subsidiaries****Consolidated Balance Sheets**

	December 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 56,377,154	\$ 64,172,917
Other receivables	262,547	841,003
Prepaid expenses and other current assets	727,708	660,054
Total current assets	57,367,409	65,673,974
Non-current Assets		
Note receivable	-	7,935,122
Property and equipment, net	8,251,612	11,349,025
Intangibles and capitalized software, net	5,099,934	9,213,515
Total non-current assets	13,351,546	28,497,662
Total Assets	\$ 70,718,955	\$ 94,171,636
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,076,625	\$ 1,106,935
Deferred revenue	854,027	646,119
Income tax and other taxes payable	111,500	179,544
Total current liabilities	2,042,152	1,932,598
Commitments and Contingent Liabilities	-	-
Stockholders' Equity		
Common stock (\$0.001 par value, 150,000,000 shares authorized, 10,582,530 and 10,582,530 issued as of December 31, 2013 and December 31, 2012, respectively; 137,512 and 137,512 shares held in treasury, as of December 31, 2013 and December 31, 2012, respectively)	10,583	10,583
Additional paid-in capital	40,942,009	40,941,215
Statutory reserve	3,792,161	3,792,161
Retained earnings	11,516,661	36,186,436
Accumulated other comprehensive income	12,705,287	10,322,490
Less: Treasury stock	(977,072 )	(977,072 )
Stockholders' equity - CEAI and Subsidiaries	67,989,629	90,275,813

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Noncontrolling interests in subsidiaries	687,174	1,963,225
Total stockholders' equity	68,676,803	92,239,038
Total Liabilities and Stockholders' Equity	\$ 70,718,955	\$ 94,171,636

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

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

	Year ended December 31	
	2013	2012
Revenue		
Online education revenue	\$2,168,803	\$4,539,378
Training center revenue	4,541,027	7,185,731
Total revenue	6,709,830	11,725,109
Cost of Revenue		
Online education costs	5,300,181	7,199,678
Training center costs	2,259,012	2,895,065
Total cost of revenue	7,559,193	10,094,743
Gross Profit/(Loss)		
Online education gross profit/(loss)	(3,131,378 )	(2,660,300 )
Training center gross profit	2,282,015	4,290,666
Total gross profit/(loss)	(849,363 )	1,630,366
Operating Expenses		
Selling expenses	10,217,712	5,815,968
Administrative expenses	8,701,767	6,946,247
Depreciation and amortization	3,286,947	3,292,471
Total operating expenses	22,206,426	16,054,686
Loss from operations	(23,055,789)	(14,424,320)
Other Income (Expense)		
Other expenses, net	(24,355 )	(5,138 )
Loss on disposal of property and equipment	(22,859 )	(118,581 )
Impairment loss on intangible assets	(2,746,622 )	(1,447,173 )
Interest income	215,976	1,867,440
Total other income/(Expense), net	(2,577,860 )	296,548
Net Loss Before Provision for Income Tax	(25,633,649)	(14,127,772)
Income taxes:		
Current	-	-
Deferred	-	(319,255 )
Net Loss	(25,633,649)	(14,447,027)
Net Loss attributable to the noncontrolling interests	(963,874 )	(384,423 )
Net Loss - attributable to CEAI and Subsidiaries	\$(24,669,775)	\$(14,062,604)

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Net Loss per common stock-basic and diluted	\$ (2.33	)	\$ (1.33	)
Weighted Average Shares Outstanding-basic and diluted	10,582,530		10,582,530	
The Components of Other Comprehensive Income				
Net Loss	\$ (24,669,775)		\$ (14,062,604)	
Foreign currency translation adjustment	2,382,797		1,054,905	
Comprehensive Loss	\$ (22,286,978)		\$ (13,007,699)	

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

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

	Year ended December 31,	
	2013	2012
Cash flows from operating activities		
Net loss	\$(25,633,649)	\$(14,447,027)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization - operating expenses	3,286,948	3,292,471
Depreciation and amortization - cost of revenue	2,709,788	2,844,824
Loss on disposal of fixed assets	22,859	118,581
Bad debt written off on other receivables	-	18,969
Impairment loss on intangible assets	2,746,622	1,447,173
Stock based compensation	794	5,109
Net changes in operating assets and liabilities		
Prepaid expenses and other receivables	549,542	453,995
Deferred tax assets	-	319,255
Accounts payable and accrued liabilities	(37,798 )	(333,639 )
Income tax and other taxes payable	(68,044 )	(352,710 )
Deferred revenue	164,476	(1,650,090 )
Net cash used in operating activities	(16,258,462)	(8,283,089 )
Cash flows from investing activities		
Purchases of property and equipment	(996,551 )	(1,489,552 )
Loan received back from NIT	8,072,197	-
Proceeds from disposal of property and equipment	22,859	23,291
Net cash (used in) provided by investing activities	7,098,505	(1,466,261 )
Cash flows from financing activities		
Advance to a stockholder	-	(132,696 )
Dividend paid to noncontrolling shareholders	(355,177 )	(158,643 )
Net cash used in financing activities	(355,177 )	(291,339 )
Effect of exchange rate changes on cash	1,719,371	616,447
Net increase (decrease) in cash and cash equivalents	(7,795,763 )	(9,424,242 )
Cash and cash equivalents at beginning of period	64,172,917	73,597,159
Cash and cash equivalents at end of period	\$56,377,154	\$64,172,917
Supplemental disclosure of cash flow information		
Income tax paid	\$-	\$92,832



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

## China Education Alliance, Inc. and Subsidiaries

## Consolidated Statements of Stockholder's Equity

	Common stocks	Additional paid-in capital	Statutory reserve	Retained earnings	Accumulated other comprehensive income	Treasury stocks	Total CEAI stockholders' equity	Noncontrolling interest	Total stockholders' equity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
As of December 31, 2012	10,583	40,941,215	3,792,161	36,186,436	10,322,490	(977,072)	90,275,813	1,963,225	92,239,038
Loss for the period				(24,669,775)			(24,669,775)	(963,874)	(25,633,649)
Stock based compensation		794					794		794
Exchange adjustments					2,382,797		2,382,797	42,999	2,425,796
Dividend								(355,176)	(355,176)
As of December 31, 2013	10,583	40,942,009	3,792,161	11,516,661	12,705,287	(977,072)	67,989,629	687,174	68,676,808

## China Education Alliance, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### for the Years Ended December 31, 2013 and 2012

### 1. Description of Business

**Nature of organization** - China Education Alliance, Inc. (the “Company”), formerly known as ABC Realty Co., was 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., pursuant to a Plan of Exchange, acquired Harbin Zhong He Li Da Education Technology, Inc. (“ZHL D”), a corporation formed on August 9, 2004 in the City of Harbin in the Heilongjiang Province, People’s Republic of China (the “PRC”), with an authorized capital of \$60,386 (Renminbi (“RMB”) 500,000).

On September 15, 2004, ABC Realty Co. entered into a Plan of Exchange with ZHL D and Duane C. Bennett, the former Chairman of ABC Realty Co., pursuant to which the shareholders of ZHL D 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 ZHL D and ZHL D’s shareholders. As a result of the Plan of Exchange, the transaction was treated for accounting purposes as a recapitalization of ZHL D.

ZHL D is a technology company engaged in the online education industry in the PRC. Its mission is to promote online exam preparation services in the PRC, to improve the efficiency and effectiveness of elementary education, secondary education, vocational education, skill education, continuing education, and professional training programs, and to integrate with the international education system.

ZHL D’s subsidiary, Heilongjiang Zhonghe Education Training Center (“ZHTC”) was registered in the PRC on July 8, 2005 with a registered capital of RMB0.5 million (approximately \$60,788) and is accounted for as a wholly owned subsidiary of ZHL D. ZHL D owns 99% of ZHTC with 1% held in trust by Mr. Xiquan Yu, the Company’s CEO, for the benefit of ZHL D. In December 2013, ZHTC increased its share capital to RMB1 million (approximately \$142,412).

ZHL D also owns 70% of Beijing Hua Yu HuiZhong Technology Development Co., Ltd. (“BHYHZ”). BHYHZ was formed on September 30, 2006 in the PRC. At the time of its organization, we transferred a 30% interest in this subsidiary to the National Vocational Education Association of China, a non-profit, quasi-government entity, for no consideration to enable us to work with the Association’s network to expand our business.

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 RMB3,000,000 (approximately \$430,000) and Newspaper Group contributed RMB3,120,000 (approximately \$445,000) towards the registered capital of New Discovery. In return for their respective contributions, ZHLD owns 49.02% equity interest and Newspaper Group owns 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. As the Company did not foresee that the investment cost is recoverable from this joint venture in the near future, the Company provided fully impairment on the investment by the year ended December 31, 2011.

On January 4, 2009, 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 RMB425,000 (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 RMB500,000 (approximately \$73,067). In return for their respective contributions, ZHLD owns an 85% equity interest, and Mr. Guang Li owns a 15% equity interest in ZHLDBJ. ZHLD has entrusted Mr. Xiqun Yu to hold 20% of its equity interest of ZHLDBJ on its behalf. ZHLDBJ will be involved in the vocational training business which includes IT engineering and accounting training.

In February 2010, the Company, through ZHLD, incorporated a new company in the PRC, Beijing New Shifan Education & Technology Co., Ltd. ("New Shifan") with a registered capital of RMB1.95 million (approximately \$291,132). ZHLD owned a 65% equity interest in New Shifan and the other equity holders together owned a 35% equity interest in New Shifan. New Shifan was created to continue the operations of Beijing Shifan Culture Communication Co., Ltd. ("Beijing Shifan"). The Company paid the original owner of Beijing Shifan RMB7 million (approximately \$1,056,970) to acquire their expertise, in (i) science and math education at the secondary education level, (ii) the rights to continue publishing the magazine "Senior High School Students Mathematics, Physics, and Chemistry" and (iii) the rights to a nationwide contest for middle school and high school students. In September 2011, New Shifan changed its name to Beijing Hua Yu Pin Xue Education Technology Co., Ltd ("HYPX"). In October 2011, ZHLD took over the 35% equity interest from the other equity holders of HYPX without any consideration, and entrusted Mr. Xiqun Yu to hold the 35% equity interest on behalf of ZHLD. In November 2011, HYPX increased its share capital to RMB2 million (approximately \$298,567). In January 2012, due to changes in government regulations, the Company authorized Mr. Yu to hold the 100% equity interest on behalf of ZHLD. HYPX is focusing on expanding our training centers in Beijing, and developing extensive marketing strategy to establish new markets in other main cities.

On March 4, 2011, the Company entered into a management agreement with Nanchang Institute of Technology ("NIT"), a vocational training institution based in Nanchang, PRC. Pursuant to the agreement, the Company would assist in managing the daily operations of NIT for ten years for an annual management fee of RMB 10 million (approximately \$1,461,347). The management fee was payable on a quarterly basis and in the event of late payment, a late fee would be imposed. Additionally, a liquidated damage of RMB 50 million (approximately \$7,935,122) would be paid by any party that defaulted on the agreement.

In connection with the management agreement, the Company entered in to a loan agreement, pursuant to which the Company loaned NIT RMB 50 million (approximately \$7,935,122) to build training facilities and NIT would repay the RMB 50 million (approximately \$7,935,112) in ten years from the date NIT received the principal. The loan had an annual interest rate of 20% and the interest would be waived by the Company if NIT made all payments under the management agreement in a timely manner. We received 20% annual interest income due each quarter, therefore, the management fee was waived. The loan was secured by the assets of certain guarantors. On March 29, 2013, NIT repaid the loan principal of RMB50 million and accrued interests and the loan agreement was terminated. On the same day, the management agreement with NIT was also terminated.

On February 25, 2011, the Company entered into a share transfer agreement with the shareholder of Harbin Tianlang Culture and Education School ("Tianlang"), a tutoring school with 5,000 students, based in Harbin, PRC. Pursuant to the share transfer agreement, the Company purchased 60% of the equity interests of Tianlang for RMB 35 million (approximately \$5.3 million). The shareholder and the Company also provided RMB 2 million (approximately \$0.3 million) and RMB 3 million (approximately \$0.5 million) as working capital for Tianlang, respectively. Tianlang had established a new board of directors with five directors, of which three directors were appointed by the Company and two directors were appointed by the shareholder. The acquisition of Tianlang was completed in April 2011. We are currently co-managing Tianlang with the previous majority owner. The Company and the previous majority owner will be entitled to 60% and 40%, respectively, of the profits of Tianlang.

On May 31, 2011, the Company entered into share transfer agreements with the shareholders (the “Shareholders”) of Changchun City Chaoyang District Nuoya Foreign Languages School (“Changchun Nuoya”) and Harbin City Nangang District Nuoya Foreign Languages School (“Harbin Nuoya”), two foreign language schools based in the PRC.

Pursuant to the agreements, the Company purchased 100% of the two schools for an aggregate of RMB 16 million (approximately \$2.5 million), and all consideration had been paid up. The Shareholders’ obligations under the agreements are guaranteed by a guarantor who will be jointly and severally liable in the event of a breach by the Shareholders. The acquisition of Changchun Nuoya and Harbin Nuoya was completed by the end of May 2011 and their financial statements had been consolidated with the Company’s financial statements since May 2011. The Company did not foresee that the investment cost in Harbin Nuoya and Changchun Nuoya is recoverable in the near future. As a result, the Company fully impaired its investment in the two schools. As there is little demand for non-English classes at the time being, the Company has suspended the operation of both schools.

In June 2012, the Company, through ZHLD, incorporated a new company in the PRC, Harbin Zhong He Li Da Information Technology Co., Ltd. (“ZHLDT”) with a registered capital of RMB2 million. Mr. Yu has been entrusted to hold the 100% equity interest on behalf of ZHLD. ZHLDT was established to initiate and design a platform for online education programs, and provide this effective and efficient communication service to all the teachers and students.

## **2 Basis of Preparation of Financial Statements**

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”). The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation. The portion of the income applicable to noncontrolling interests in subsidiaries undertakings is reflected in the consolidated statement of operations.

Certain reclassifications have been made to prior period balances on the balance sheet to conform to the presentation for the year ended December 31, 2012. Such reclassifications did not have any effect on results of operations.

## **3. Summary of Significant Accounting Policies**

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

**Cash and cash equivalents** - The Company considers all highly liquid debt instruments purchased with a maturity period of three months or less to be cash or cash equivalents. The carrying amounts reported in the accompanying unaudited condensed consolidated balance sheets for cash and cash equivalents approximate their fair value. All of the Company’s cash that is held in bank accounts in the PRC is not protected by Federal Deposit Insurance Corporation (“FDIC”) insurance or any other similar insurance in the PRC. The cash that the Company maintains in US banks is insured up to \$250,000 at each bank as of December 31, 2013 and 2012. The Company’s cash at their US banks is in excess of statutorily insured limits at \$1,282,348 and \$4,525,820, as of December 31, 2013 and 2012, respectively.

**Property and equipment** - Property and equipment is stated at the historical cost, less accumulated depreciation and impairments. Depreciation on property and equipment is provided using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20 years
Communication equipment	10 years
Transportation vehicles	5 years
Furniture and fixtures	5 years
Leasehold improvements	over unexpired lease terms

Expenditures for renewals and betterments are capitalized while repairs and maintenance costs are normally charged to the statement of operations in the period/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 and impairment 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 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 and equipment are used, and the effects of obsolescence, demand, competition, and other economic factors.

**Intangibles** - Intangibles consist of franchise rights on educational products, software, teacher list, student list, domain/brand name, course materials, goodwill, magazine rights and contest operation rights. Most intangible assets are amortized over the lives of the rights agreements, or their respective operational useful lives.

The Company evaluates the carrying value of intangible assets during the second 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. For the years ended December 31, 2013 and 2012, the Company recorded \$2,746,622 and \$1,447,173, respectively, as impairment loss.

In April 2011, the Company purchased 60% equity interest of Tianlang for RMB 35 million (approximately \$5.3 million) and 100% ownership of Changchun Nuoya and Harbin Nuoya. These three schools' net assets included identifiable intangible assets such as domain name/brand name, cost of materials, student list, course materials and teacher lists. The economic useful life for domain name/brand name is estimated to be 10 years and the others are estimated to be 3 years.

**Long-lived assets** - The Company reviews its long-lived assets for impairments 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 USD as the functional currency, and the financial position and results of operations of the Company's PRC subsidiaries are recorded in RMB as the functional currency. The results of operations denominated in foreign currency are translated at the average rate of exchange during the respective reporting period.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate of exchange at that date. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. All translation adjustments resulting from the translation of the financial statements into the reporting currency (“U.S. Dollars” or “US\$”) are recorded in accumulated other comprehensive income, a separate component within shareholders’ equity. The accompanying consolidated financial statements are presented in US\$. The functional currency of the Company is RMB. The consolidated financial statements are translated into US\$ from RMB at year-end exchange rates as to assets and liabilities and average exchange rates as to revenues and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The resulting translation adjustments are recorded as a component of shareholders’ equity included in other comprehensive income. Gains and losses from foreign currency transactions are included in profit or loss. There were no gains and losses from foreign currency transactions during the years ended December 31, 2013 and 2012.

	As of December 31, 2013	December 31, 2012
RMB: US\$ exchange rate	6.1122	6.3011

	Year ended December 31,	
	2013	2012
Average RMB: US\$ exchange rate	6.1941	6.3034

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

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

**Revenue recognition** - Revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the service has been rendered; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The Company believes that these criteria are satisfied when customers download prepaid study materials.

Prepaid debit cards allow the Company’s subscribers to purchase a predetermined monetary amount of download materials downloadable from 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 expires.

Tuition from courses is recognized ratably over the period that fees are earned, typically the life of the course. The Company offers credits to students if they should withdraw, or are unable to complete their 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. Pursuant to the contract with this agency, upon posting of an on-line advertisement on the Company’s website, the Company is entitled to share

with the agency 50% of the amount charged to the on-line advertiser.

The Company recognizes advertising revenue monthly on receipt of the confirmation from the agent. 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 the Company's website.

Deferred revenue reflects the unearned portion of debit cards sold and tuition payments received. 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.

**Deferred revenue** - Deferred revenue reflects the unearned portion of debit cards sold and tuition payments received. Deferred revenue as of December 31, 2013 and December 31, 2012 was \$ 854,027 and \$ 646,119, respectively.

**Advertising** - The Company expenses advertising costs at the time they are published on the newspaper and for all other advertising the first time the respective advertising takes place. These costs are included in selling and administrative expenses. The total advertising expenses incurred for the year ended December 31, 2013 and 2012 were \$7,035,270 and \$2,770,988, respectively.

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

The Company does not accrue United States income tax on unremitted earnings from foreign operations, as it is the Company’s intention to invest these earnings in foreign operations for the foreseeable future. All of the Company’s revenues are generated in the PRC. The Company’s US operations provide corporate and administrative functions for the entire Company. The Company’s tax provisions for the year ended December 31, 2013 and 2012 are related to the Company’s PRC operations.

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

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

### **Income Tax**

Private schools or colleges operated for reasonable returns, such as our subsidiary Tianlang, are subject to income taxes at 25% after January 1, 2008, but were sometimes subject to deemed amounts or preferential tax arrangement of income tax to be determined by the relevant tax authorities. Our subsidiary Tianlang had not yet been charged income taxes under current regulation. The Company is unable to accurately estimate the chance of having the Tianlang’s tax position being challenged by PRC tax authorities; therefore the Company did not record any tax liabilities in respect of Tianlang’s profits.

Based on all known facts and circumstances and current tax law, the Company believes that the total amount of unrecognized tax provisions or benefits as of December 31, 2013, is not material to its results of operations, financial condition or cash flows. The Company also believes that the total amount of unrecognized tax provisions or benefits as of December 31, 2013, 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 PRC tax laws and

policies, that the unrecognized tax provisions or benefits will significantly increase or decrease over the next 12 months producing, individually or in the aggregate, a material effect on the Company's results of operations, financial condition or cash flows.

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 had no deferred tax assets as of December 31, 2013 and 2012.

**Value added tax**

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

VAT payable in the PRC is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided, but excluding, in respect of both goods and services, any amount paid in respect of VAT included in the price or charges, less any deductible VAT already paid by the taxpayer on purchases of goods and services. The Company records all revenues net of VAT.

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

The Company recorded stock-based compensation expenses of \$794 and \$5,109, respectively, for the year ended December 31, 2013 and 2012.

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

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

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

The Company did not have any assets or liabilities valued using Level 2 or Level 3 inputs as of December 31, 2013 and 2012, respectively.

**Treasury stock** - We account for treasury stock under the cost method and include treasury stock as a component of stockholders' equity. When retired, the excess of the cost of treasury stock over its par value is allocated between retained earnings and additional paid-in capital.

**Recent accounting pronouncements** - Management does not believe that any recently issued, but not yet effective, accounting standards or pronouncements, if currently adopted, would have a material effect on the Company's consolidated financial statements.

#### 4. Concentrations of business and credit risk

The majority of the Company's bank accounts are with banks located in the PRC that 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 the PRC, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between the US\$ and the RMB.



Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and accounts receivable, the balances of which are stated on the balance sheet. The Company places its cash in high credit quality financial institutions; however, such funds are not insured in the PRC. As of December 31, 2013 and 2012, the Company maintains cash in the US, in a financial institution insured by the FDIC that has approximately \$1,282,348 and \$4,525,820, respectively, in funds in excess of FDIC insured amounts.

For the years ended December 31, 2013 and 2012, no sales to a single customer accounted for 10% or more of our revenue.

Our subsidiaries, ZHTC, Changchun Nuoya and Harbin Nuoya, are private schools not operated for reasonable returns; therefore, are not allowed to distribute dividends. As of December 31, 2013 and December 31, 2012, the total un-distributable net assets of ZHTC, Changchun Nuoya and Harbin Nuoya amounted to \$34,041,297 and \$33,169,873, respectively.

## 5. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	December 31, 2013	December 31, 2012
Cash on Hand -China	\$ 384,189	\$ 38,522
Bank Deposits-China	54,460,617	59,273,602
Bank Deposits-US	1,532,348	4,860,793
	\$ 56,377,154	\$ 64,172,917

## 6. Prepaid expenses and other current assets

Prepaid expenses consist of the following:

	December 31, 2013	December 31, 2012
Prepaid rent	\$ 517,375	\$ 313,981
Prepaid teachers and online material	172,128	213,174
Prepaid services and professional fees	16,349	-

Prepaid advertising	-	104,746
Other prepaid expenses	21,856	28,153
	\$ 727,708	\$ 660,054

## 7. Property and equipment, net

Property and equipment consist of the following:

	December 31, 2013	December 31, 2012
Buildings	\$ 1,454,144	\$ 1,410,550
Transportation vehicles	107,547	112,258
Communication equipment	10,353,715	12,949,181
Furniture and fixtures	5,600,492	2,956,701
Leasehold improvement	4,006,759	2,955,891
	21,522,657	20,384,581
Less: Accumulated Depreciation	(13,271,045 )	(9,035,556 )
Property and Equipment, net	\$ 8,251,612	\$ 11,349,025

For the year ended December 31, 2013 and 2012, depreciation expenses totaled \$4,373,308 and \$4,304,334, respectively. For the year ended December 31, 2013 and 2012, loss on disposal of fixed assets was \$22,859 and \$118,581, respectively.

## **8. Intangibles and capitalized software, net**

Intangibles of the Company consisted of franchise rights on educational products, software, magazine rights, contest operation rights, domain name/brand name, course materials, student list and teacher list, and goodwill.

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

### Capitalized software

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

- The usage rights for job seekers is software to help university students to search jobs, post their resumes, and communicate with potential employers;
- The usage right for learners is software to help elementary and secondary students to do assignments, test papers, and get instructions from teachers.

### Intangible assets on acquisitions

In March 2011, the Company acquired a 60% controlling interest in Tianlang for a purchase price of RMB 35 million (approximately \$5.3 million). The school had insignificant tangible assets or liabilities at the acquisition date. The entire estimated fair value of approximately \$8.9 million has been allocated to the net identifiable assets of Tianlang; the intangible assets recorded are all subject to amortization.

In May 2011, the Company acquired a 100% ownership in Changchun Nuoya and Harbin Nuoya. The aggregate purchase price for the two schools was RMB 16 million (approximately \$2.5 million). The schools had insignificant tangible assets or liabilities at the acquisition date. The entire estimated fair value of approximately \$2.5 million has been allocated to the net identifiable assets of Changchun Nuoya and Harbin Nuoya; the intangible assets recorded are all subject to amortization.

The Company did not foresee that the investment cost is recoverable in the near future, and concluded for the group reporting that certain triggering events had occurred which could result in it being more likely than not that the fair value of each reporting unit would be less than its carrying value. As a result, the Company conducted the impairment test for intangible assets which resulted in accumulated impairment for the year ended December 31, 2013 is \$4,142,169 and \$1,447,703 for 2012, respectively.

Intangibles and capitalized software consist of the following:

	December 31, 2013		December 31, 2012
ACCP training course	\$ 824,580		\$ 799,859
BENET training course	57,753		56,023
Usage rights- Job Seekers	490,822		476,107
Usage rights- Learners	327,214		317,405
Others	2,515,352		2,470,238
Domain names	9,677,038		9,446,515
Course materials	547,663		534,040
Student list	809,702		790,083
Teacher list	1,066,476		1,041,949
	16,316,600		15,932,219
Less: Impairments	(4,142,169	)	(1,447,703
Less: accumulated amortization	(7,074,497	)	(5,271,001
Intangible and Capitalized Software, net	\$ 5,099,934		\$ 9,213,515

For the years ended December 31, 2013 and 2012, amortization expenses were \$1,623,428 and \$1,832,961, respectively.

Amortization of intangibles and capitalized software over the next five years is as follows:

Years ending December 31,	
2014	\$ 860,632
2015	823,981
2016	728,042
2017	632,301
2018	632,301
	\$3,677,257

## 9. Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of the following:

	December 31, 2013	December 31, 2012
Accounts payable	\$ -	\$ 3,968
Accrued payroll	108,492	195,880
Accrued expenses	153,162	148,561
Other payables	814,971	758,526
	\$ 1,076,625	\$ 1,106,935

## 10. Deferred revenue

Deferred revenues include subscriber prepayments and education fee prepayments. Subscriber prepayments represent deferred revenue for the purchase of debit cards used to pay for the online downloading of education materials. The Company recognizes revenue when the card is used to download material. During the period between the purchase and use of debit cards, the unused portion of the debit card is treated as deferred revenue to the Company. Education fee prepayments represent payments for tuition for the Company's training schools, which are amortized over the term of the course. As of December 31, 2013 and 2012, the Company had deferred revenue of \$ 854,027 and \$646,119, respectively.

## 11. Stockholders' Equity

The Company had no significant equity transactions during the years ended December 31, 2013 and 2012.

## **12. Warrants and options**

### Stock Options

During the year ended December 31, 2013 and 2012, the Company did not issue any stock options. The total stock based compensation was \$794 and \$5,109 respectively, related to the vesting of previously granted options.

The Company measures the fair value of options at the end of each reporting period until options are exercised, cancelled or expire unexercised. As of December 31, 2013, there were options to acquire 52,667 shares of common stock with a weighted average exercise price of \$2.67 and a weighted average remaining life of 0.35 years, which remain outstanding and continue to be remeasured at the intrinsic value over their remaining vesting period of 0.35 years. Compensation expense in any given period is calculated as the difference between total earned compensation at the end of the period, less total earned compensation at the beginning of the period. Compensation earned is calculated on a straight line basis over the requisite service period for any given option award. As of December 31, 2013, there was no unrecognized compensation expense related to stock options. The intrinsic value for exercisable options as of December 31, 2013 is \$0 because the market price is lower than exercise price.

Stock option activity for the year ended December 31, 2013 is summarized as follows:

	Shares underlying options	Weighted average exercise price
Outstanding as of December 31, 2012	52,667	\$ 2.67
Granted	-	-
Exercised	-	-
Expired / cancelled / forfeited	-	-
Outstanding as of December 31, 2013	52,667	\$ 2.67
Exercisable and vested as of December 31, 2013	52,667	\$ 2.67

The following table summarizes the Company's stock options outstanding at December 31, 2013.

Weighted average exercise price	Outstanding December 31, 2013	Weighted average remaining life in years	Number exercisable
\$ 2.67	52,667	0.35	52,667
	52,667		52,667

### 13. Earnings per share

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

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For the years ended December 31, 2013 and 2012, dilutive shares include shares attributable to exercisable options only if such inclusion would be dilutive.

The following reconciles the components of the EPS computation:

	Years ended December 31,	
	2013	2012
Net loss to common shareholders	\$(24,669,775)	\$(14,062,604)
Weighted average shares outstanding - basic	10,582,530	10,582,530
Weighted average shares outstanding - diluted	10,582,530	10,582,530
Loss per share – basic and diluted	\$(2.33 )	\$(1.33 )



During the years ended December 31, 2013 and 2012, options to purchase 52,667 and 52,667 shares of common stock with exercise prices greater than the average fair market value of the Company's stock were not included in the calculation because the effect is anti-dilutive.

#### **14. Commitments and contingencies**

##### *Employee Benefits*

The full time employees of subsidiaries based in the PRC are entitled to employee benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a Chinese government mandated multi-employer defined contribution plan. The Company is required to accrue for those benefits based on certain percentages of the employees' salaries and make contributions to the plans out of the amounts accrued for medical and pension benefits. The total provision and contributions made for such employee benefits for the years ended December 31, 2013 and 2012 were \$94,052 and \$77,379, respectively. The Chinese government is responsible for the medical benefits and the pension liability to be paid to these employees.

##### *Minimum Lease Commitments*

The Company has 31 office leases and training center leases which expire at various dates from February 2014 through June 2018. The Company recorded an aggregate of \$1,680,150 and \$1,347,032, as rent expenses for the years ended December 31, 2013 and 2012, respectively. Rental commitments as of December 31, 2013 are as follows:

Years ending December 31,	
2014	\$1,213,520
2015	923,980
2016	369,816
2017	103,570
2018	990
	\$2,611,876

#### **15. Operating Risk**

(a) Country risk

Currently, the Company's revenue is mainly derived from sale of educational products and services in the PRC. The Company hopes to expand its operations in the PRC, 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 rate risk

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

(d) Political risk

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

(e) Key personnel risk

The Company's future success depends on the continued services of executive management in the PRC. 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.

## **16. Statutory Reserves**

The Company is required to make appropriations to reserve funds, comprising the statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the People's Republic of China (the "PRC GAAP"). Appropriation to the statutory surplus reserve should be at least 10% of the after tax net income determined in accordance with the PRC GAAP until the reserve is equal to 50% of the entities' registered capital or members' equity. Appropriations to the statutory public welfare fund are at a minimum of 5% of the after tax net income determined in accordance with PRC GAAP. Commencing on January 1, 2006, the new PRC regulations waived the requirement for appropriating retained earnings to the statutory public welfare fund. The public welfare fund no longer requires the Company to contribute, but the Company can't dissolve it. As of December 31, 2007, the Company appropriated 50% of its registered capital to statutory reserve for Heilongjiang Zhonghe Education Training Center, and has not contributed additional funds to

this subsidiary statutory surplus reserve, as they are in compliance with all applicable PRC rules. The Company's other subsidiary has not reached their maximum contribution required for their statutory reserve; accordingly contributions were made for the year ended December 31, 2013. For the years ended December 31, 2013 and 2012, statutory reserves activity is as follows:

	Harbin Zhong He Li Da Education Technology, Inc	Heilongjiang Zhonghe Education Training Center	Total
Balance – January 1, 2012	\$ 3,510,294	\$ 281,867	\$3,792,161
Allocations to Statutory reserves	-	-	-
Balance – December 31, 2012	3,510,294	281,867	3,792,161
Allocations to Statutory reserves	-	-	-
Balance – December 31, 2013	\$ 3,510,294	\$ 281,867	\$3,792,161

#### 17. Related Party Transactions

As of December 31, 2013 and 2012, the Company owed a related party \$689,720 and \$686,501, respectively.

## 18. Income Taxes

The Company and its subsidiaries are subject to income taxes on an “entity” basis that is, on income arising in or derived from the tax jurisdiction in which each entity is domiciled. It is management's intention to reinvest all the income earned by the Company's subsidiaries outside of the US. Accordingly, no US federal income taxes have been provided on earnings of foreign based subsidiaries.

The Company was incorporated in the United States, and is subject to United States federal income taxes and has incurred operating losses since inception.

In the years ended December 31, 2013 and 2012, ZHLD continues being qualified as a technology and software entity, and is entitled to a 15% statutory PRC enterprise income tax rate. The Company's subsidiaries, ZHTC, TL, Harbin Nuoya, Changchun Nuoya and Beijing Xicheng District Hua Yu Pin Xue Training School are currently exempted from PRC taxation, as these subsidiaries operate a business enterprise engaged in educational opportunities. The Company's other subsidiaries; BHYHZ, ZHLDBJ, ZHLDIT, HYPX and Beijing Xicheng District Hua Yu Pin Xue Training School are taxed at the PRC statutory rate (25%), and have incurred operating losses during the year.

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

	Year Ended December 31,	
	2013	2012
U.S Operations	\$(1,302,000 )	\$(1,200,000 )
Chinese Operations	(24,332,000)	(12,928,000)
	\$(25,634,000)	\$(14,128,000)

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

	Years Ended December 31,	
	2013	2012
Income tax (benefit) provision at Federal statutory rate	\$(7,589,000 )	\$(4,945,000)
State income taxes, net of Federal benefit	(976,000 )	(636,000 )
U.S. tax rate in excess of foreign tax rate	3,159,000	2,004,000
Increase in valuation allowance	5,406,000	3,577,000
Tax provision	\$-	\$-

The Company has a U.S net operating loss carryforward of approximately \$8,400,000 as of December 31, 2013 which will expire through 2030. Under IRC section 382, certain of these loss carryforward amounts may be limited due to the more than 50% change in ownership which took place during 2005.

The deferred tax asset of approximately \$3,318,000 associated with these net operating loss carryforwards was fully reserved as of December 31, 2012.

Deferred income tax for 2013 and 2012 reflect the effect of temporary differences between amounts of assets, liabilities, and equity for financial reporting purposes and the bases of such assets, liabilities, and equity as measured by tax laws.

The approximately tax effects of temporary differences that give rise to the Company's net deferred tax assets as of December 31, 2013 and 2012 are as follows:

	2013	2012
Deferred tax assets:		
Tax loss carried forward	\$6,807,000	\$3,318,000
Valuation allowance	(6,807,000)	(3,318,000)
Total non-current deferred tax assets	\$-	\$-

## 19. Subsequent Events

As of March 31, 2014, there is no subsequent event to be disclosed.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

## Item 9A. Controls and Procedures.

### *Evaluation of Disclosure Controls and Procedures*

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports filed under the Securities Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that this information is accumulated and communicated to the Company's management, including the Company's chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation with the participation of the Company's management, including Xiqun Yu, the Company's chief executive officer, and Cloris Li, the Company's chief financial officer, of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule

13a-15(e) under the Exchange Act) as of the fiscal year ended December 31, 2013. Based upon that evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective.

### ***Management's Annual Report on Internal Control over Financial Reporting***

The Company's management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. The Company's management is also required to assess and report on the effectiveness of the Company's internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"). Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of the Company's financial reporting for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that: (i) pertain to maintaining records that in reasonable detail accurately and fairly reflect the Company's transactions; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of the Company's financial statements and that receipts and expenditures of company assets are made in accordance with management authorization; and (iii) provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. This evaluation was conducted by Xiqun Yu, the Company's chief executive officer, and Cloris Li, the Company's chief financial officer. Based on our evaluation, we determined that, as of December 31, 2013, our internal control over financial reporting was effective.



In order to improve the efficiency of our internal control over financial reporting, we have taken and are implementing the following measures:

- We have established and maintained an audit committee to oversee our accounting and financial reporting; We continuously evaluated the independence and competency of the members in audit committee;
- We are continuously evaluating the roles of our existing accounting personnel in an effort to realign the reporting structure of our internal auditing staff in the PRC who test and monitor the implementation of our accounting and internal control procedures;
- We are continuously reviewing and improving the documentation of our internal control procedures and policies; and
- We provided training to our employees in the PRC to ensure that the importance of internal controls and compliance with established policies and procedures are fully understood throughout the organization and provided additional U.S. GAAP training to all employees involved with the performance of or compliance with those procedures and policies.

This annual report does not include an attestation report of the Company's registered accounting firm regarding internal control over financial reporting. The management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission.

### ***Changes in Internal Controls over Financial Reporting***

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

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

### ***Limitations on Controls***

Management does not expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been

detected. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures are effective at that reasonable assurance level.

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The following are our officers and directors as of the date of this Annual Report. All of our officers and directors are reside of the PRC and, therefore, it may be difficult for investors to effect service of process within the U.S. upon them or to enforce judgments against them obtained from the U.S. courts.

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The following table sets forth certain information concerning our directors and executive officers:

Name	Age	Position
Xiqun Yu	46	Chairman of the board, Chief Executive Officer, and President
Cloris Li	32	Chief Financial Officer
Xiaohua Gu <sup>1,2,3</sup>	40	Director
Liansheng Zhang <sup>1,2,3</sup>	72	Director

1 Member of the audit committee.

2 Member of the compensation committee.

3 Member of the nominating committee.

**Mr. Xiqun Yu** has been our chairman and chief executive officer since the organization of our subsidiaries in 2001. He has more than 20 years of experience in senior management with several Northern PRC-based enterprises. He was responsible for marketing, strategic planning and designing for many of these corporations. Mr. Yu previously served as the chief executive officer of RETONG.COM, and chairman of Harbin Zhonghelida Technology Corporation, Heilongjiang Retong Advertising Co., Ltd. and Heilongjiang Wantong Telecommunication Project Co., Ltd. Mr. Yu is a member of the Council of China Harbin Advertising Association and is a Director of the China Internet Network Association. Mr. Yu received a degree in Business Administration from the Harbin University of Science and Technology in 1989.

**Ms. Cloris Li** is a certified public accountant in Australia and a member of Certified Public Accountant Australia. Before joining the Company as Chief Financial Officer, she was a consultant in PricewaterhouseCoopers, focusing on the function of assurance and risk & control, providing audit, internal control advice and SOX compliance services to both public and private companies. From 2007 to 2009, Ms. Li served as vice president in a private family fund assisting domestic Chinese companies seeking overseas listings. She worked as senior auditor and tax advisor in national wide Australian accounting firm, providing financial auditing, planning and tax advice to both local and multinational companies from 2004 to 2006. Ms. Li graduated from Queensland University Technology Australia with a Bachelor of Business in Accounting in 2004.

**Mr. Xiaohua Gu** is a partner at Richlink Capital, a financial service institution focusing on private equity fund management and investment banking services. From July 2006 to February 2010, Mr. Gu worked as assistant manager in taxation at the Hangzhou Office of KPMG Advisory (China) Limited, where he was engaged in providing tax advisory and compliance services. Mr. Gu received his Master of Science in Accounting from Lees Metropolitan University in 2004 and his Master of Business Administration from University of Newcastle upon Tyne in 2001. He got his bachelor degree in tourism from Shanghai University in 1995.

**Mr. Liansheng Zhang** has been a director since October 2007. Since July 1990, Mr. Zhang has served as Pluralism Director at the Heilongjiang provincial Base of Research and Experiment in Polymer Science & Technology. Mr. Zhang has also been appointed as a People's Representative during the 9th (1998) and 10th (2003) National People's Congress of the PRC for his extraordinary achievement in Polymer Science and Technology. Mr. Zhang received a Bachelor's Degree in Organic Chemistry from the Heilongjiang University and Master's Degree in Polymer Chemistry at the Jilin University. Mr. Zhang was also a visiting scholar at the University of Bradford.

Our directors will serve until the annual meeting of stockholders in 2014 and until his respective successors have been elected and have qualified, or until his earlier resignation, removal or death.

### **Director Qualifications**

Directors are responsible for overseeing the Company's business consistent with their fiduciary duty to stockholders. This significant responsibility requires highly-skilled individuals with various qualities, attributes and professional experience. The board believes that there are general requirements for service on the Company's board of directors that are applicable to all directors and that there are other skills and experience that should be represented on the board as a whole but not necessarily by each director. The board and the Nominating Committee consider the qualifications of director and director candidates individually and in the broader context of the board's overall composition and the Company's current and future needs.

### *Qualifications for All Directors*

In its assessment of each potential candidate, including those recommended by stockholders, the Nominating Committee considers the nominee's judgment, integrity, experience, independence, understanding of the Company's business or other related industries and such other factors the Nominating Committee determines are pertinent in light of the current needs of the board. The Nominating Committee also takes into account the ability of a director to devote the time and effort necessary to fulfill his or her responsibilities to the Company.

The board and the Nominating Committee require that each director be a recognized person of high integrity with a proven record of success in his or her field. Each director must demonstrate innovative thinking, familiarity with and respect for corporate governance requirements and practices, an appreciation of multiple cultures and a commitment to sustainability and to dealing responsibly with social issues. In addition to the qualifications required of all directors, the Board conducts interviews of potential director candidates to assess intangible qualities including the individual's ability to ask difficult questions and, simultaneously, to work collegially. The board does not have a specific diversity policy, but considers diversity of race, ethnicity, gender, age, cultural background and professional experiences in evaluating candidates for board membership. Diversity is important because a variety of points of view contribute to a more effective decision-making process.

### *Qualifications, Attributes, Skills and Experience to be Represented on the Board as a Whole*

The board has identified particular qualifications, attributes, skills and experience that are important to be represented on the board as a whole, in light of the Company's current needs and its business priorities. The board believes that it should include some directors with a high level of financial literacy and some directors who possess relevant business experience as a Chief Executive Officer or a President or like position. Marketing is the core focus of our business and the Company seeks to develop and deploy the world's most innovative and effective marketing and technology. Therefore, the board believes that marketing and technology experience should be represented on the board. The Company is involved in the education business in the PRC. Therefore the Company's business also requires compliance with a variety of regulatory requirements and relationships with various governmental entities. Therefore, the board believes that governmental, political or diplomatic expertise should be represented on the Board.

Set forth below are a chart and a narrative disclosure that summarize the specific qualifications, attributes, skills and experiences described above. An "X" in the chart below indicates that the item is a specific reason that the director has been nominated to serve on the Company's Board. **The lack of an "X" for a particular qualification does not mean that the director does not possess that qualification or skill.** Rather, an "X" indicates a specific area of focus or expertise of a director on which the board currently relies.

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Xiqun Yu Xiaohua Gu Liansheng Zhang

High level of financial literacy		X	
Extensive knowledge of the Company's business	X		
Marketing/Marketing related technology experience	X		
Relevant Chief Executive/President or like experience	X		
Governmental, political or diplomatic expertise	X		X

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Xiqun Yu

*Extensive knowledge of Company's business* - Mr. Yu has been our chairman and Chief Executive Officer since the organization of our subsidiaries in 2001.

*Marketing/Marketing related technology experience* - He has more than 20 years of experience in senior management with several Northern PRC-based enterprises and was responsible for marketing, strategic planning and designing for many of these corporations.

*Relevant Chief Executive/President or like experience* – Apart from being our chairman and Chief Executive Officer since the organization of our subsidiaries in 2001, Mr. Yu previously served as the chief executive officer of RETONG.COM, and chairman of Harbin Zhonghelida Technology Corporation, Heilongjiang Retong Advertising Co., Ltd. and Heilongjiang Wantong Telecommunication Project Co., Ltd.

*Governmental, political or diplomatic expertise* - Mr. Yu is a member of the Council of China Harbin Advertising Association and is a Director of the China Internet Network Association.

Liansheng Zhang

*Governmental, political or diplomatic expertise* - Mr. Zhang also been appointed as a People's Representative during the 9th (1998) and 10th (2003) National People's Congress of the PRC for his extraordinary achievement in Polymer Science and Technology.

Xiaohua Gu

*High level of financial literacy* – Mr. Gu received his Master of Science in Accounting from Lees Metropolitan University. From July 2006 to February 2010, Mr. Gu worked as assistant manager in taxation at the Hangzhou Office of KPMG Advisory (China) Limited, where he was engaged in providing tax advisory and compliance services.

Save as otherwise reported above, none of our directors hold directorships in other reporting companies.

There are no family relationships among our directors or officers.

To our knowledge, during the last ten years, none of our directors and executive officers (including those of our subsidiaries) has:

· Had a bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time.

· Been convicted in a criminal proceeding or been subject to a pending criminal proceeding, excluding traffic violations and other minor offenses.

· Been subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities.

· Been found by a court of competent jurisdiction (in a civil action), the SEC, or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

· Been the subject to, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization, any registered entity, or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.



## **Committees of the Board of Directors**

Our board of directors has three committees, the audit committee, the compensation committee and the nominating committee. The audit committee and compensation committee were established in October 2007, and the nominating committee was established in June 2009. Prior to October 2007, our entire board of directors acted as the audit and compensation committee for the purpose of overseeing the accounting and financial reporting processes, and audits of our financial statements.

### **Audit Committee and Audit Committee Financial Expert**

Our board of directors established an audit committee in October 2007. The audit committee is responsible for (i) recommending independent accountants to the Board, (ii) reviewing our financial statements with management and the independent accountants, (iii) making an appraisal of our audit effort and the effectiveness of our financial policies and practices and (iv) consulting with management and our independent accountants with regard to the adequacy of internal accounting controls. Our audit committee members are Xiaohua Gu (Chairman) and Liansheng Zhang.

Our board of directors has determined that it has an “audit committee financial expert” as defined by Item 401(h) of Regulation S-K as promulgated by the Securities and Exchange Commission. Our audit committee financial expert is Xiaohua Gu. The directors who serve on the audit committee are “independent” directors based on the criteria for independence set forth in our Corporate Governance Guidelines which is available on our website at <http://www.chinaeducationalliance.com/Corporate.jsp>. Our Board of Directors has adopted a written charter for the Audit Committee which was amended on January 13, 2013. The amended charter is available on our website at <http://www.chinaeducationalliance.com/Governance.jsp>.

### **Compensation Committee**

Our board of directors established a compensation committee in October 2007.

The compensation committee of the board of directors is responsible for (i) determining the general compensation policies, (ii) establishing compensation plans, (iii) determining senior management compensation and (iv) administering our stock option plans. The members of the compensation committee currently are Liansheng Zhang (Chairman) and Xiaohua Gu. The members of our compensation committee or their affiliates did not provide additional service to the Company or its affiliates in an amount in excess of \$120,000 during the Company’s fiscal year ended December 31, 2013.

Our board of directors has adopted a written compensation committee charter which was amended on January 13, 2013. The amended charter is available on our website at <http://www.chinaeducationalliance.com/Governance.jsp>. The directors who serve on the compensation committee are “independent” directors based on the criteria for independence set forth in our Corporate Governance Guidelines which is available on our website at <http://www.chinaeducationalliance.com/Corporate.jsp>.

### **Nominating Committee**

Our board of directors established a nominating committee in June 2009.

The purpose of the nominating committee of the board of directors is to assist the board of directors in identifying and recruiting qualified individuals to become board members and select director nominees to be presented for board and/or stockholder approval. The nominating committee will be involved in evaluating the desirability of and recommendation to the board of any changes in the size and composition of the board, and evaluation of and successor planning for the chief executive officer and other executive officers. The qualifications of any candidate for director will be subject to the same extensive general and specific criteria applicable to director candidates generally. The members of the nominating committee currently are Liansheng Zhang (Chairman) and Xiaohua Gu.

The directors who serve on the nominating committee are “independent” directors based on the criteria for independence set forth in our Corporate Governance Guidelines which is available on our website at <http://www.chinaeducationalliance.com/Corporate.jsp>. The nominating committee has a written charter which was amended on January 13, 2013. The amended charter is available on our website at <http://www.chinaeducationalliance.com/Governance.jsp>. The nominating committee will consider qualified director candidates recommended by stockholders if such recommendations for director are submitted in writing to our Secretary at 58 Heng Shan Road, Kun Lun Shopping Mall, Harbin, the PRC 150090, provided such recommendation has been made in accordance with the relevant by-laws.

At this time, no additional specific procedures to propose a candidate for consideration by the nominating committee, nor any minimum criteria for consideration of a proposed nomination to the board, have been adopted.

#### **Material Changes to the Procedures by which Security Holders May Recommend Nominees to the Board of Directors**

There have been no material changes to the procedures by which security holders may recommend nominees to the Board of Directors.

#### **Code of Ethics**

On January 13, 2013, we have adopted a new Code of Business Conduct and Ethics to replace the Company’s previous Code of Business Conduct and Ethics by its entirety. The new code is applicable to our directors, officers, employees and agents and is currently available on our website at <http://www.chinaeducationalliance.com/Corporate.jsp>.

The board and its committees held the following number of meetings during the fiscal year of 2013.

Board of Directors	4
Audit Committee	4
Compensation Committee	0
Nominating Committee	1

The meetings include meetings that were held by means of a conference telephone call, but do not include actions taken by unanimous written consent, which amounted to one such action.

Each director attended at least 75% of the total number of meetings of the board and those committees on which he served during the year.

### **Board Leadership Structure and Role in Risk Oversight**

Xiqun Yu is our chairman and chief executive officer. We have two independent directors. Our lead independent director is Xiaohua Gu. Our Board has three standing committees, each of which is comprised solely of independent directors with a committee chair. The Board believes that the Company's chief executive officer is best situated to serve as Chairman of the Board because he is the director most familiar with our business and industry and the director most capable of identifying strategic priorities and executing our business strategy. In addition, having a single leader eliminates the potential for confusion and provides clear leadership for the Company. We believe that this leadership structure has served the Company well.

Our Board of Directors has overall responsibility for risk oversight. The Board has delegated responsibility for the oversight of specific risks to Board committees as follows:

The Audit Committee oversees the Company's risk policies and processes relating to the financial statements and financial reporting processes, as well as key credit risks, liquidity risks, market risks and compliance, and the guidelines, policies and processes for monitoring and mitigating those risks.

·The Nominating Committee oversees risks related to the company's governance structure and processes.

Our Board of Directors is responsible to approve all related party transactions. We have not adopted written policies and procedures specifically for related person transactions.

### **Limitations on Liability**

Article VIII of our Bylaws limits the liability of our directors, officers and employees to the fullest extent permitted by North Carolina law. Consequently, our directors and officers may not be personally liable for monetary damages regarding their duties as directors.

### ***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16(a) of the Exchange Act requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities to file with the SEC initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common stock and other equity securities, on Form 3, 4 and 5, respectively. Executive officers, directors and greater than 10% shareholders are required by the SEC regulations to furnish our company with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of such reports received by us and on written representations by our officers and directors regarding their compliance with the applicable reporting requirements under Section 16(a) of the Exchange Act, we believe that, with respect to the fiscal year ended December 31, 2013, our officers and directors, and all of the persons known to us to own more than 10% of our common stock, filed all required reports on a timely basis.

### **Item 11. Executive Compensation.**

The following table sets forth information with respect to the compensation of each of the named executive officers for services provided in all capacities to China Education Alliance, Inc. and its subsidiaries in the fiscal years ended December 31, 2013 and 2012 in their capacity as such officers. Mr. Xiqun Yu, our chief executive officer and also one of our directors, receives no additional compensation for his services in his capacity as director. No other executive officer or former executive officer received more than \$100,000 in compensation in the fiscal years except reported below.

Name and Principal Position	Fiscal Year	Salary (\$)	Change in Pension Value and Non-qualified Deferred Compensation (\$)	Stock Bonus (\$)	Option Awards (\$)	Incentive Plan Awards (\$)	Non-equity Compensation (\$)	All Other Compensation (\$)	Total (\$)
Xiqun Yu Chief Executive Officer (principal executive officer)(1)	2013	34,900	—	—	—	—	—	—	34,900
	2012	34,267	—	—	—	—	—	—	34,267
Cloris Li Chief Financial Officer (principal financial officer) (2)	2013	120,000	—	—	—	—	—	—	120,000
	2012	120,000	—	—	—	—	—	—	120,000

Mr. Yu is entitled to an annual salary of RMB 216,000 (approximately \$34,267) for his services serving as Chief (1) Executive Officer of the Company. He does not receive any compensation for his services on the board of directors.

- (2) Ms. Cloris Li joined us as our Chief Financial Officer on November 28, 2011.

***Outstanding Equity Awards at 2013 Fiscal Year End***

As of December 31, 2013, no options were exercised, and options to purchase 52,667 shares of the Company's common stock were outstanding.

Outstanding Equity Awards at Fiscal Year-End December 31, 2013

Option/Stock Awards

Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Equity incentive plan awards: Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of shares or units of stock that have not vested (\$)	Equity incentive plan awards: Number of shares, units or other rights that have not vested (#)	Market or payout value of unearned shares, units or other rights that have not vested (\$)
Zhang Yizhao	20,000	-	-	2.67	5/9/2014	-	-	-	-
Hongbo Ma	1,000	-	-	2.67	5/9/2014	-	-	-	-
Jianfeng Cheng	1,000	-	-	2.67	5/9/2014	-	-	-	-
Liancheng Wei	1,000	-	-	2.67	5/9/2014	-	-	-	-
Lianshuang Li	1,000	-	-	2.67	5/9/2014	-	-	-	-
LixiaXiu	1,000	-	-	2.67	5/9/2014	-	-	-	-

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MingmingBai	10,000	-	-	2.67	5/9/2014	-	-	-	-
Quanxi Wang	1,000	-	-	2.67	5/9/2014	-	-	-	-
Tao Wang	3,333	-	-	2.67	5/9/2014	-	-	-	-
Xiaofei Qi	1,667	-	-	2.67	5/9/2014	-	-	-	-
Xiuli Han	10,000	-	-	2.67	5/9/2014	-	-	-	-
Xinghai Zhao	1,667	-	-	2.67	5/9/2014	-	-	-	-
Total	52,667	-	-						

***Employment Agreements***

We do not currently provide any contingent or deferred forms of compensation arrangements, annuities, or retirement benefits to our executive officers or directors.



Pursuant to the terms of the Employment Agreement between the Company and Mr. Xiqun Yu, dated August 9, 2012, Mr. Yu shall be paid an annual salary of RMB 216,000 (approximately \$34,267) in addition bonuses and benefits as may be determined by the Company's Compensation Committee. The Employment Agreement is valid for five years expiring August 8, 2017, subject to early termination upon not less than 30 days' notice.

On November 28, 2011, Ms. Cloris Li was appointed our Chief Financial Officer. Ms. Li's compensation as Chief Financial Officer is set forth in an employment agreement between Ms. Li and the Company dated November 30, 2011. Pursuant to the agreement, Ms. Li is to receive an annual salary of \$120,000 for her services as Chief Financial Officer. Ms. Li's employment agreement continues on a year-to-year basis unless terminated by either party on not less than thirty day notice.

### ***Compensation Discussion and Analysis***

We strive to provide our named executive officers (as defined in Item 402 of Regulation S-K) with a competitive base salary that is in line with their roles and responsibilities when compared to peer companies of comparable size in similar locations.

It is not uncommon for PRC private companies in the PRC to have base salaries as the sole form of compensation. The base salary level is established and reviewed based on the level of responsibilities, the experience and tenure of the individual and the current and potential contributions of the individual. The base salary is compared to the list of similar positions within comparable peer companies and consideration is given to the executive's relative experience in his or her position. Base salaries are reviewed periodically and at the time of promotion or other changes in responsibilities.

We plan to implement a more comprehensive compensation program, which takes into account other elements of compensation, including, without limitation, short and long term compensation, cash and non-cash, and other equity-based compensation such as stock options. We expect that this compensation program will be comparable to the programs of our peer companies and aimed to retain and attract talented individuals.

### ***Board Compensation***

The following table sets forth the compensation received by our directors in fiscal year of 2013 in their capacity as directors:

Name and Principal Position	Fee earned or paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Xiqun Yu Chief Executive Officer and director	—	—	—	—	—	—	—
Xiaohua Gu Director	15,000	—	—	—	—	—	15,000
Liansheng Zhang Director	5,000	—	—	—	—	—	5,000

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table sets forth certain information with respect to the beneficial ownership of our voting securities by (i) any person or group owning more than 5% of any class of voting securities, (ii) each director, (iii) our chief executive officer and (iv) all executive officers and directors as a group as of March 28, 2014.

<b>Name and Address</b>	<b>Number of Shares Beneficially Owned (1)</b>	<b>Percentage of Outstanding Shares (1)</b>	
<b>5% Shareholder</b>			
Zesiger Capital Group LLC 460 Park Avenue, 22nd Floor New York, NY 10022 (2)	727,400	6.87	%
	-	-	
<b>Executive Officers and Directors</b>			
Xiqun Yu 58 Heng Shan Rd. Kun Lun Shopping Mall Harbin, PRC 150090 (3)	4,327,779	40.90	%
Cloris Li 58 Heng Shan Rd. Kun Lun Shopping Mall Harbin, PRC 150090	0	0	
Liansheng Zhang (4) 58 Heng Shan Rd. Kun Lun Shopping Mall Harbin, PRC150090	3,334	*	
Xiaohua Gu 58 Heng Shan Rd.Kun Lun Shopping Mall Harbin, PRC150090	0	0	
<b>Officers and Directors as a group (four individuals)</b>	4,331,113	40.93	%

\*Represents less than 1%

(1) In determining beneficial ownership of our common stock as of a given date, the number of shares shown includes shares of common stock which may be acquired on exercise of warrants or options or conversion of convertible

securities within 60 days of that date. In determining the percent of common stock owned by a person or entity on March 28, 2014, (a) the numerator is the number of shares of the class beneficially owned by such person or entity, including shares which may be acquired within 60 days on exercise of warrants or options and conversion of convertible securities, and (b) the denominator is the sum of (i) the total shares of common stock outstanding on March 28, 2014 (10,582,530), and (ii) the total number of shares that the beneficial owner may acquire upon conversion of the preferred and on exercise of the warrants and options. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of its shares.

Clients for whom Zesiger Capital Group LLC (“ZCG”) acts as investment adviser may withdraw dividends or the (2) proceeds of sales from the accounts managed by ZCG. No single client account owns more than 5% of the class of securities.

The shares beneficially owned by Xiqun Yu include (a) 4,227,779 shares of common stock directly owned by Xiqun Yu, and (b) an option granted by the Company on June 18, 2009, to purchase 100,000 shares of the (3) Company’s common stock in three equal installments, the first being vested on the date of the grant, and additional installments being vested on the first and second anniversaries of the date of the grant.

Liansheng Zhang was granted an option to purchase 3,334 shares of the common stock of the Company on June 18, 2009. The option shall become exercisable during the term of the Liansheng Zhang's employment in three (4) equal annual installments of 1,111 shares of common stock each (save for the last installment of 1,112 shares), the first installment to be exercisable on the date of this option, with additional installments becoming exercisable on each of the first and second anniversaries following the date of the option.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

#### **Related Party Transactions**

As of December 31, 2013 and 2012, the Company owed a related party \$689,720 and \$686,501, respectively.

#### **Independent Directors**

Our Board of Directors is currently comprised of a majority of independent directors, as such term is defined in our Corporate Governance Guidelines which is available on our website at <http://www.chinaeducationalliance.com/Corporate.jsp>., and the independent directors are Xiaohua Gu and Liansheng Zhang.

### **Item 14. Principal Accounting Fees and Services.**

#### ***Audit Fees***

We incurred approximately \$132,000 and \$120,000 for professional services rendered by our registered independent public accounting firm, Albert Wong & Co., for the integrated audit of the Company for fiscal years ended December 31, 2013 and 2012, respectively.

#### ***Audit-Related Fees***

We did not incur any audit-related fees in the fiscal years ended December 31, 2013 and 2012.

***Tax Fees***

We did not incur any tax fees in the fiscal years ended December 31, 2013 and 2012.

***All Other Fees***

We did not incur any fees from our registered independent public accounting firm for services other than the services covered in “Audit Fees” in the fiscal years ended December 31, 2013 and 2012.

**Pre-Approval Policies and Procedures**

The Audit Committee pre-approves all audit and non-audit services performed by the Company’s auditor and the fees to be paid in connection with such services in order to assure that the provision of such services does not impair the auditor’s independence.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

Exhibit No.	Description
3.1	Articles of Incorporation filed December 2, 1996 in the State of North Carolina are incorporated herein by reference to Exhibit 3.1 to the Form SB-2 Registration Statement of China Education Alliance, Inc. (File No. 333-101167) filed on November 13, 2002.
3.2	Articles of Amendment Business Corporation dated May 23, 2002 are incorporated herein by reference to Exhibit 3.2 to the Form SB-2 Registration Statement of China Education Alliance, Inc. (File No. 333-101167) filed on November 13, 2002.
3.3	Articles of Amendment Business Corporation filed November 17, 2004, changing the name of the Company from ABC Realty Co. to China Education Alliance, Inc. is incorporated herein by reference to Exhibit 3.3 filed with the Company's Form 10-KSB annual report for its fiscal year ended December 31, 2005.
3.4	Articles of Share Exchange of China Education Alliance, Inc. filed with the Department of The Secretary of State of the State of North Carolina on December 30, 2004 are incorporated herein by reference to Exhibit 3.1 filed with China Education Alliance, Inc.'s Form 10-QSB quarterly report for its quarter ended September 30, 2007 filed with the SEC on November 14, 2007.
3.5	Articles of Amendment to Articles of Incorporation filed with the Department of The Secretary of State of the State of North Carolina on October 4, 2007 are incorporated herein by reference to Exhibit 3.2 filed with China Education Alliance, Inc.'s Form 10-QSB quarterly report for its quarter ended September 30, 2007 filed with the SEC on November 14, 2007.
3.6	Articles of Amendment to Articles of Incorporation filed with the Department of The Secretary of State of the State of North Carolina on September 26, 2011 is incorporated herein by reference to Exhibit 3.6 to the Form 10-K filed with the SEC on April 16, 2012.
3.7	Bylaws of China Education Alliance, Inc. are incorporated herein by reference to Exhibit 3.3 to the Form SB-2/A Registration Statement of China Education Alliance, Inc. filed on February 7, 2003 (File No. 333-101167).
3.8	Amendment to Bylaws of China Education Alliance, Inc. is incorporated herein by reference to the Form 8-K filed with the SEC on January 14, 2013.
4.1	China Education Alliance, Inc. 2009 Stock Incentive Plan is incorporated herein by reference to Exhibit 4.1 to the Post-Effective Amendment to Registration Statement on Form S-8 filed with the SEC on June 19, 2009.

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- 4.2 China Education Alliance, Inc. 2011 Stock Incentive Plan is incorporated herein by reference to Exhibit 4.1 to Form S-8 filed with the SEC on July 1, 2011.
- 10.1 Employment Agreement dated August 9, 2012 between China Education Alliance, Inc. and Xiqun Yu is incorporated herein by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed with the SEC on April 1, 2013.
- 10.2 Employment Agreement dated as of November 30, 2011 between Cloris Li and the Registrant is incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on November 30, 2011.
- 10.3 Translation of Appointment Agreement between the Company and Xiaohua Gu, dated June 30, 2011, is incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on June 30, 2011.
- 10.4 Share Transfer Agreement dated March 14, 2011 between the shareholder of Harbin Tianlang Culture and Education School and the Registrant is incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on March 17, 2011.



- 10.5 Translation of Share Transfer Agreement, dated May 31, 2011, between the Company and the shareholder of Changchun City Chaoyang District Nuoya Foreign Languages School is incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on May 31, 2011.
- 10.6 Translation of Share Transfer Agreement, dated May 31, 2011, between the Company and the shareholder of Harbin City Nangang District Nuoya Foreign Languages School is incorporated herein by reference to Exhibit 10.2 to the Form 8-K filed with the SEC on May 31, 2011.
- 10.7 Lease Agreement, dated March 16, 2009, between Harbin Tianlang Culture and Education School and Harbin ZhongTianHengJi Real Estate Consulting Firm is incorporated herein by reference to Exhibit 10.35 to the Form 10-K filed with the SEC on April 16, 2012.
- 10.8 Lease Agreement, dated May 15, 2011, between Harbin City Nangang District Nuoya Foreign Languages School and Harbin Gong Da Yang Guang Property Management Co., Ltd is incorporated herein by reference to Exhibit 10.37 to the Form 10-K filed with the SEC on April 16, 2012.
- 10.9 Lease Agreement, dated September 7, 2010, between Harbin Zhong He Li Da Education Technology, Inc., and China Overseas Plaza Property Co., Ltd. is incorporated herein by reference to Exhibit 10.38 to the Form 10-K filed with the SEC on April 16, 2012.
- 10.10 China Education Cloud Platform (Souzhi) Development Agreement, dated April 10, 2012, by and between Harbin Zhong He Li Da Education Technology, Inc. and Beijing Qianpinbaihui Science and Technology Development Co., Ltd. is incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K filed with the SEC on April 1, 2013.
- 10.11 China Education Cloud Platform (Xuezhi) Development Agreement, dated March 1, 2012, by and between Harbin Zhong He Li Da Education Technology, Inc. and Beijing Jinkeruida Technology Co., Ltd. is incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K filed with the SEC on April 1, 2013.
- 21.1 List of Subsidiaries\*
- 23.1 Consent of Independent Registered Public Accounting Firm.\*
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 32.2 Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 101.INS XBRL Instance Document\*

101.SCH XBRL Taxonomy Extension Schema Document\*

101.CAL XBRL Taxonomy Calculation Linkbase Document\*

101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*

101.LAB XBRL Taxonomy Label Linkbase Document\*

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101.PRE XBRL Taxonomy Presentation Linkbase Document\*

\*Filed herewith.

\*\*Furnished herewith.

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## SIGNATURES

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

### **CHINA EDUCATION ALLIANCE, INC.**

Date: March 31, 2014 By: /s/ Xiqun Yu  
Xiqun Yu  
President and Chief Executive Officer  
(Principal Executive Officer)

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

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