

ATA Inc.  
Form 20-F  
April 12, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

- ☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- ☐ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
- OR**
- ☒ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from April 1, 2017 to December 31, 2017**
- OR**
- ☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report .....

Commission file number: 001-33910

**ATA Inc.**  
(Exact name of Registrant as specified in its charter)

**Not applicable**  
(Translation of Registrant's name into English)

**Cayman Islands**  
(Jurisdiction of incorporation or organization)

# Edgar Filing: ATA Inc. - Form 20-F

1/F East Gate, Building No. 2, Jian Wai Soho,

No. 39 Dong San Huan Zhong Road,

Chao Yang District, Beijing 100022, China  
(Address of principal executive offices)

Amy Tung

Chief Financial Officer

ATA Inc.

1/F East Gate, Building No. 2, Jian Wai Soho,

No. 39 Dong San Huan Zhong Road,

Chao Yang District, Beijing 100022, China

Telephone: 8610-6518-1122

Facsimile: 8610-5869-8106

(Name, Telephone E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class
American Depositary Shares, each representing two common shares, par value \$0.01 per share

Name of each exchange on which registered
NASDAQ Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act. **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the transition report:

48,421,886 common shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

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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 Website, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.  
☐

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The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒

International Financial Reporting Standards as issued  
by the International Accounting Standards Board ☐

Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

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**INTRODUCTION**

Except where the context otherwise requires and for purposes of this transition report only:

- We changed our fiscal year end from March 31 to December 31 in June 2017, effective from the calendar year ended December 31, 2017. This transition report on Form 20-F covers the nine-month period from April 1, 2017 through December 31, 2017 (the "Transition Period") and reflects our financial results thereof. Prior to this transition report on Form 20-F, our two most recent annual reports on Form 20-F cover the fiscal years ended March 31, 2016 and March 31, 2017, respectively, and reflect financial results for the respective twelve-month periods from April 1 to March 31. Unless otherwise noted, all references to years are to the calendar year from January 1 to December 31 and references to our fiscal year or years are to the fiscal year or years which, prior to the Transition Period, ended March 31, while from and after the Transition Period, ended December 31;
- we, us, our company, our, and ATA refer to ATA Inc., its subsidiaries and its consolidated variable interest entity as the context requires. After the completion of the sale of ATA Online which currently conducts ATA's testing development and delivery services, ATA's subsidiaries will not include ATA Online (Beijing) Education Technology Co., Ltd., or ATA Online, a subsidiary of ATA and incorporated under the laws of the PRC;
- China, Chinese and PRC refer to the People's Republic of China, excluding, for purposes of this transition report only, Taiwan and the Special Administrative Regions of Hong Kong and Macau;
- all references to Renminbi or RMB are to the legal currency of China, and all references to U.S. dollars, dollars, \$ or US\$ are to the legal currency of the United States;
- U.S. GAAP refers to generally accepted accounting principles in the United States; and
- PRC GAAP refers to generally accepted accounting principles in the People's Republic of China.

This transition report on Form 20-F includes (i) our audited consolidated statements of comprehensive income (loss) for the fiscal years ended March 31, 2016 and 2017 and for the nine months ended December 31, 2017 and our unaudited financial data of comprehensive income (loss) for the nine months ended December 31, 2016, and (ii) our audited consolidated balance sheets as of March 31, 2017 and December 31, 2017. Each of our ADSs represents two common shares. Our ADSs are

listed on the Nasdaq Global Market under the symbol ATAI .

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**FORWARD-LOOKING STATEMENTS**

This transition report on Form 20-F contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical facts in this transition report are forward-looking statements. In some cases, these forward-looking statements can be identified by words and phrases such as may, should, intend, predict, potential, continue, will, expect, anticipate, estimate, plan, believe, is /are likely to or the negative form of these words and phrases and comparable expressions. The forward-looking statements included in this transition report relate to, among others:

- our goals and strategies;
- our future prospects and market acceptance of our technologies, products and services;
- our future business development and results of operations;
- projected revenues, profits, earnings and other estimated financial information;
- our plans to expand and enhance our products and services;
- competition in the computer-based testing, educational services and online education markets; and
- Chinese laws, regulations and policies, including those applicable to the education industry, internet content providers, internet content and foreign exchange.

These forward-looking statements involve various risks, assumptions and uncertainties. Although we believe that our expectations expressed in these forward-looking statements are reasonable, our expectations may turn out to be incorrect. Our actual results could be materially different from our expectations. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in Item 3.D. of this transition report, Key information Risk Factors and elsewhere in this transition report.

The forward-looking statements made in this transition report relate only to events or information as of the date on which the statements are made in this transition report. All forward-looking statements included herein attributable to us or other parties or any person acting on our

behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.



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**PART I.**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

**Selected Consolidated Financial Data**

We changed our fiscal year end from March 31 to December 31 in June 2017. The following selected consolidated statements of comprehensive income (loss) data (other than ADS data) for the fiscal years ended March 31, 2016, March 31, 2017 and the nine months ended December 31, 2017, the selected consolidated balance sheets data as of March 31, 2017 and December 31, 2017 are derived from our audited consolidated financial statements included elsewhere in this transition report and should be read in conjunction with such consolidated financial statements and related notes. The unaudited financial data as of and for the nine months ended December 31, 2016 are presented solely for the purpose of providing meaningful comparisons with the nine-month period ended December 31, 2017. Our selected consolidated statements of comprehensive income data (other than ADS data) for the fiscal years ended March 31, 2014 and 2015 and the selected consolidated balance sheets data as of March 31, 2014, 2015 and 2016 are derived from our audited consolidated financial statements not included in this transition report. The following information should also be read in conjunction with Item 5. Operating and Financial Review and Prospects. Our audited consolidated financial statements are prepared in accordance with U.S. GAAP.

For the Fiscal Year Ended March 31,				For the Nine Months Ended December 31,		
2014	2015	2016	2017	2016	2017	
RMB	RMB	RMB	RMB	RMB	RMB	US\$

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(Unaudited)

(In thousands, except for share and ADS data)

Selected Consolidated Statements of Comprehensive Income (Loss) Data:							
Net Revenues							
Testing services	358,837	319,055	384,800	430,057	402,549	453,225	69,660
Online education services	5,949	5,711	4,897	7,462	7,070	6,553	1,007
Other	19,882	25,392	27,443	34,867	25,817	30,281	4,654
<b>Total net revenues</b>	<b>384,668</b>	<b>350,158</b>	<b>417,140</b>	<b>472,386</b>	<b>435,436</b>	<b>490,059</b>	<b>75,321</b>
Gross profit	196,188	177,619	209,123	232,533	216,551	231,009	35,505
Total operating expenses	154,809	147,938	157,388	161,026	120,842	161,501	24,822
Income from operations	41,379	31,758	51,735	71,507	95,709	69,508	10,683
Share of losses of equity method investments		(2,197)	(8,829)	(16,121)	(11,869)	(1,878)	(289)
Impairment loss of long-term investments				(32,199)	(21,905)	(15,217)	(2,339)
Income tax expense	(19,895)	(9,575)	(18,922)	(38,597)	(21,996)	(29,408)	(4,520)
<b>Net income (loss)</b>	<b>27,276</b>	<b>23,056</b>	<b>26,051</b>	<b>(9,969)</b>	<b>43,944</b>	<b>27,837</b>	<b>4,278</b>
Net loss attributable to non-redeemable non-controlling interests				(253)	(34)	(352)	(54)
Net loss attributable to redeemable non-controlling interests						(1,445)	(223)
Net income (loss) attributable to ATA Inc.	27,276	23,056	26,051	(9,716)	43,978	29,634	4,555
Basic earnings (loss) per common share	0.59	0.49	0.57	(0.21)	0.96	0.48	0.07
Diluted earnings (loss) per common share	0.59	0.49	0.57	(0.21)	0.96	0.48	0.07
Basic earnings (loss) per ADS (1)	1.18	0.98	1.14	(0.42)	1.92	0.96	0.14
Diluted earnings (loss) per ADS (1)	1.18	0.98	1.14	(0.42)	1.92	0.96	0.14
Dividends declared per common share		1.260				1.334	0.205
<b>Weighted average common shares outstanding</b>							
Basic	45,227,159	45,597,580	45,635,186	45,772,916	45,769,707	45,793,127	
Diluted	45,231,555	45,597,580	45,635,186	45,772,916	45,769,707	45,793,127	

(1) Each ADS represents two common shares.

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		As of March 31,			As of December 31,	
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2017 RMB	US\$
(In thousands)						
Selected Consolidated Balance Sheet Data:						
Cash and cash equivalents	311,947	240,295	247,668	222,448	256,091	39,360
Accounts receivable, net	68,353	48,150	50,552	56,161	100,105	15,386
Total current assets	398,093	312,951	316,488	295,945	366,816	56,379
Restricted cash				30,000		
Long term investments		35,730	50,686	88,892	75,122	11,546
Total assets	491,237	455,244	470,461	519,840	568,442	87,368
Deferred revenues, current	8,383	21,743	16,612	10,222	10,805	1,661
Total current liabilities	77,149	76,158	74,352	103,030	141,766	21,789
Deferred income tax liabilities				22,621	22,798	3,504
Total liabilities	79,345	77,922	76,231	127,383	167,065	25,677
Mezzanine equity-redeemable non-controlling interests					36,304	5,580
Common shares	3,475	3,514	3,531	3,534	3,535	543
Retained earnings (accumulated deficit)	(1,372)	21,684	47,735	38,019	25,885	3,978
Total shareholders' equity attributable to ATA Inc.	411,892	377,322	394,231	391,377	364,729	56,058
Non-redeemable non-controlling interests				1,080	344	53
Total shareholders' equity	411,892	377,322	394,231	392,457	365,073	56,111
	2014	For the Fiscal Year Ended March 31,			2017	For the Nine Months Ended December 31,
		2015	2016			2017
Key Operating Data:						
Number of tests delivered(1)	9,688,210	8,821,781	10,380,175		12,213,205	12,376,907

(1) Includes free tests delivered for business development purposes. The number of tests delivered excluding free tests in the fiscal years ended March 31, 2014, 2015, 2016, 2017 and the nine months ended December 31, 2017 was 9,411,226, 8,767,389, 10,258,866, 12,127,203 and 12,345,481, respectively.

**Exchange Rate Information**

We conduct our business primarily in China and a substantial majority of our revenues and expenses are denominated in Renminbi. The conversion of Renminbi into U.S. dollars in this transition report is based on the noon buying rate in the City of New York for cable transfers of Renminbi per U.S. dollar certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this transition report were made at a rate of RMB 6.5063 to US\$1.00, which was the noon buying rate in effect as of December 31, 2017. The noon buying rate on April 5, 2018 was RMB 6.3045 to US\$1.00. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The Chinese government restricts or prohibits the conversion of Renminbi into foreign currency and foreign currency into Renminbi for certain types of transactions.

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The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this transition report.

	Average (1)	Renminbi per U.S. Dollar Noon Buying Rate High	Low	Period-end
Fiscal year ended March 31, 2014	6.1220	6.0402	6.2273	6.2164
Fiscal year ended March 31, 2015	6.1952	6.1107	6.2741	6.1990
Fiscal year ended March 31, 2016	6.3584	6.1927	6.5932	6.4480
Fiscal year ended March 31, 2017	6.7425	6.4571	6.9580	6.8832
Nine months ended December 31, 2017	6.6881	6.4773	6.9060	6.5063
<b>Most recent months:</b>				
October 2017	6.6254	6.5712	6.6533	6.6328
November 2017	6.6200	6.5967	6.6385	6.6090
December 2017	6.5932	6.5063	6.6210	6.5063
January 2018	6.4233	6.2841	6.5263	6.2841
February 2018	6.3183	6.2649	6.3471	6.3280
March 2018	6.3174	6.2685	6.3565	6.2726
April 2018 (period through April 5, 2018)	6.2939	6.2785	6.3045	6.3045

Source: H.10 weekly statistical release of the Federal Reserve Board

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(1) Annual averages are calculated using the exchange rates for the last day of each month during the relevant year. Monthly averages are calculated using daily exchange rates during the relevant month.

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**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

**Risks Relating to Our Business**

*Our testing development and delivery business currently operated by ATA Online represents a substantial majority of our business. The completion of the sale of ATA Online remains uncertain. If the sale of ATA Online is completed, our business may be substantially different following the sale of ATA Online. If the sale of ATA Online is not completed, we may not be able to achieve the same or greater results of operations or values to shareholders as with the sale of ATA Online.*

Our testing development and delivery business being conducted by ATA Online constitutes a substantial majority of our business. In the fiscal year ended March 31, 2017 and the nine months ended December 31, 2017, revenues from ATA Online amounted to RMB 463.0 million and RMB 484.5 million (US\$74.5 million), respectively, representing 98.0% and 98.9% of our total revenues for the same periods, respectively. For the fiscal year ended March 31, 2017, ATA Online also constituted nearly 100% of ATA's positive bottom line contribution. On February 6, 2018, ATA entered into a share purchase agreement, or the Share Purchase Agreement, with a group of investors, including two entities affiliated with funds managed by CDH Investments, a major Chinese alternative asset management firm based in Beijing, or the CDH Entities; New Beauty Holdings Limited, a company controlled by Kevin Xiaofeng Ma; and four holding companies controlled by certain management members of ATA Online, or the Management Entities, together with the CDH Entities and New Beauty Holdings Limited, collectively, the Buyer Group, with respect to the sale of ATA Online. See Item 4.A. Information on the Company History and Development of the Company for details.

The closing of this transaction is expected to take place in three stages subject to the satisfaction of various conditions precedent under the Share Purchase Agreement. On April 4, 2018, the first closing of this transaction, or the First Closing, was completed, and the second closing of this transaction, or the Second Closing, and/or the third closing of this transaction, or the Third Closing, still remain uncertain as of the date of this transition report. There is no assurance that all conditions precedent to the Second

Closing and/or the Third Closing will be satisfied or waived. If the Third Closing does not happen while the First and Second Closings have happened and certain transaction considerations have been distributed to ATA BVI as dividend, we would incur up to approximately US\$27.35 million taxes and approximately US\$3 million of other expenses. Once incurred, it is unlikely that we would be able to recoup such taxes and expenses even if the parties unwind the entire transaction after the termination of the Share Purchase Agreement. In such case, we would be obligated to refund the First and Second Closing considerations to the relevant buyer(s), but we would be entitled to deduct such taxes and expenses from the deposit in the amount of US\$20.0 million provided by Mr. Kevin Xiaofeng Ma (or his designee), or the Deposit, and if the Deposit is insufficient to cover such taxes and expenses, then either (A) such taxes and expenses will be indemnified by Mr. Kevin Xiaofeng Ma's holding entity, or (B) the portion of the Second Closing consideration payable to the four entities owned and controlled by certain management members of ATA Online shall be deducted by the difference between (i) such taxes and expenses, and (ii) the Deposit, and we shall be released from any liability therefrom. If this transaction is completed, we will no longer conduct our testing development and delivery business currently operated by ATA Online. Subsequent to the closing of this transaction, the remaining portions of our businesses primarily include the following: (i) development of K-12 education assessment tools and contents, (ii) our collaboration with Nanjing University and the Education and Research Institute of Tsinghua University on several research projects, and (iii) our strategic investments in certain education technology companies, including Beijing Empower Education Online, Co., Ltd., ApplySquare Education & Technology Co., Ltd., Beijing GlobalWisdom Information Technology Co., Ltd., Brilent Inc., Beijing Satech Internet Educational Technology Ltd. and Master Mind Education Company. Subsequent to the closing of this transaction, we intend to leverage our existing competency-focused assessment and education service capabilities and the strategic opportunities that we have been working on to transform our company into a leading international education service provider. We plan to focus on three areas: (i) international education services for providing services to talents internationally; (ii) vocational training services for candidates using international resources and approaches; and (iii) evaluation services for assessing and evaluating candidates through content and methodologies. As a result, our business may be significantly different following the sale of ATA Online. As such, our results of operation for any particular historical period may not be indicative of our future operating results, and our revenues and results of operations may also be negatively affected. On the other hand, if the sale of ATA Online cannot be completed as planned, we will continue to conduct our testing development and delivery business operated by ATA Online, and may consider and evaluate other strategic opportunities. In such circumstances, there can be no assurance that our continued operation of ATA Online-related businesses or any alternative strategic opportunities will result in the same or greater results of operations or values to our shareholders as with the sale of ATA Online.

In addition, we have made certain representations, warranties and covenants under the Share Purchase Agreement with respect to the sale of ATA Online. If there is any breach by us of any such representation, warranty, covenant or other obligation under the Share Purchase Agreement, we may be liable, either before or after the closing of the transaction. For details regarding the Share Purchase Agreement, see Item 4.A. Information on the Company History and Development of the Company.

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*We may fail to satisfy the continued listing requirements for Nasdaq Global Market following the sale of ATA Online. If we are unable to satisfy such continued listing requirements, our ADSs may be delisted from that market.*

Our reporting obligations as a SEC registrant will not be affected as a result of completing the sale of ATA Online. For as long as we remain as such, we have an obligation to continue to comply with the applicable reporting requirements of the Exchange Act, which includes the filing with the SEC of periodic reports and other documents relating to our business, financial condition and other matters, even though compliance with such reporting requirements is economically burdensome. However, in order to continue to be listed on the Nasdaq Global Market, we must meet the continued listing requirements as set forth in Rule 5450(a) and at least one of the equity, market value and total assets/total revenue standards in Rule 5450(b) of the Nasdaq Listing Rules. Because ATA Online represents a substantial majority of our business and operating assets, the sale of ATA Online will significantly increase our risk of failure to meet these requirements. Additionally, our ADSs may be subject to delisting by the Nasdaq under Rule 5810 of the Nasdaq Listing Rules, which provides that the Nasdaq Listing Qualifications Department may, based on its discretionary authority, determine to limit or prohibit continued listing of a company as a result of the company's failure to comply with the continued listing requirements. Any delisting of our ADSs from the Nasdaq Global Market could adversely affect our ability to attract new investors, decrease the liquidity of our outstanding ADSs, reduce our flexibility to raise additional capital, reduce the trading price of our ADSs, and increase the transaction costs inherent in trading such shares with overall negative effects for our shareholders. In addition, delisting of our ADSs could deter broker-dealers from making a market in or otherwise seeking or generating interest in our ADSs, and might deter certain institutions and persons from investing in our securities at all. For these reasons and others, the delisting could adversely affect the price of our ADSs and our business, financial condition and results of operations.

*A limited number of our clients have accounted for and are expected to continue to account for a high percentage of our revenues. The loss of or significant reduction in orders from any of these clients could significantly reduce our revenues and have a material adverse effect on our results of operations.*

Our three largest clients in the nine months ended December 31, 2017, the Chinese Institute of Certified Public Accountants, or the CICPA, the Asset Management Association of China, or the AMAC, and the China Bankers Institute, or the CBI accounted for 23.3%, 14.5% and 10.7%, respectively, of our net revenues in that period. We provide both computer-based testing and test administration services to our three largest clients. We generated RMB 237,976,760 (\$36,576,358) net revenues from our services to CICPA, AMAC and CBI in the nine months ended December 31, 2017.

As of December 31, 2017, our gross accounts receivable from CICPA, AMAC and CBI were RMB 15,537,954 (\$2,388,140), RMB 15,714,552 (\$2,415,282) and RMB nil (\$nil), respectively.

Due to our dependence on a limited number of clients, any one of the following events, among others, could cause material fluctuations or declines in our revenues and have a material adverse effect on our financial condition or results of operations:

- a reduction, delay or cancellation of contracts or product or service orders from one or more of our major clients;
- a delay in paying or failure to pay outstanding accounts receivable;
- a decision by one or more of our major clients to award contracts or orders to one of our competitors; and
- a decision by one or more of our major clients to significantly reduce the price they are willing to pay for our services or products.

Any of these events could occur due to causes outside of our control, such as macro-economic conditions, changes in a client's management or the personnel with whom we interact, changes in technology, the actions of our competitors, changes in governmental regulations and policies and changes in a client's budgeting or financial prospects.

***Our financial results are subject to fluctuations and seasonality related to the revenue cycles for our products and services. Our relatively long and unpredictable sales cycle and other factors beyond our control may decrease our revenues in a particular period. As a result, it is difficult for us to predict our results of operations and you should not rely on our historical operating results as an indication of our future financial performance.***

Our results of operations have varied in the past from period to period, and are likely to vary in the future, due to the fact that a substantial portion of our sources of revenues are seasonal. We have experienced seasonality and expect in the future to continue to experience seasonality in net revenues and accounts receivable related to our test delivery services, with the quarters ending June 30 and December 31 typically having higher net revenues from testing services and the quarters ending September 30 and March 31 typically having lower net revenues from testing services. This is primarily because the tests from which we derive substantial revenues are mostly delivered in the quarters ending June 30 and December 31. Test timing can be a major contributing factor to quarterly fluctuations of financial results. For example, we generated revenues of RMB 316.4 million in the quarter ended December 31, 2017 as compared to RMB 69.6 million in the quarter ended September 30, 2017, primarily because one of our major test sponsors, CICPA, held tests during the quarter ended December 31.

In addition, our sales cycles are generally long and unpredictable. A client's decision to purchase our products and services often involves a lengthy evaluation process. Throughout the sales cycle, we often spend considerable time educating and providing information to prospective clients regarding the use and benefits of our products and services. Moreover, budget constraints and the need for multiple approvals within large enterprises, governmental agencies and educational institutions may also delay purchasing decisions. As a result, the sales cycle for our services may last a year or longer. Such a lengthy sales cycle, and any future increases in our sales cycle, could lead to higher sales and marketing expenses and adversely affect our cash flow from operations. In addition, the lengthy sales cycle has made, and may continue to make, our financial results prone to fluctuations or decrease our revenues in a particular period.

If our revenues for a particular quarter are lower than we expect, we may be unable to reduce our operating expenses for that quarter by a corresponding amount, which could negatively affect our operating results for that quarter. As a result, you should not rely on our



quarter-to-quarter comparisons of our operating results as indicators of likely future performance. Our operating results may be below the expectations of public market analysts and investors in one or more future quarters. If that occurs, the market price of our ADSs could decline and you could lose part or all of your investment. Fluctuations of our quarterly financial results may also lead to increased volatility in the market price of our ADSs.

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*The market for our services in China is still emerging and evolving rapidly. If market acceptance of our services declines or fails to grow, our revenue growth may slow or we may experience a decrease in revenues.*

As the market for our services in China is still emerging and evolving rapidly, our success will depend to a large extent on our ability to convince our clients that our technologies and services are valuable and that it is more cost-effective for them to utilize our services than for them to develop similar services in-house.

We must address the following concerns, among others, with our clients as they decide to implement our computer-based testing services to use our technologies and services:

- concern over the commitment of time, personnel and funding necessary to implement our computer-based testing services;
- ability of clients to develop their own computer-based testing services;
- possible perceived security and academic integrity risks associated with computer-based testing services and third-party curriculum providers; and
- reluctance of the academic community to adopt computer-based learning materials and computer-based tests.

A decline in the demand for computer-based testing services by test sponsors could negatively affect the demand for our computer-based testing services and technologies. Even if the demand for computer-based testing services continues to grow, this demand may not grow as quickly as we anticipate. If market acceptance of our services declines or fails to grow, our revenue growth may slow or we may experience a decrease in revenues.

*The markets for our new service offerings are still new and unpredictable. If we cannot succeed in adapting to client needs in the new markets or effectively addressing risks associated with this expansion, our revenue growth may slow and our reputation may be negatively affected.*

We have allocated, and intend to continue to allocate, time, effort and capital to expand our service offerings, and test-delivery systems, such as our proprietary mobile test administration platform called the Mobile Testing Service, or MTS, which we launched in 2013, our patented online testing platform, EzTest, which we launched in 2015, and our new online recruitment management platform, EzInterview,

which we launched in 2017. In November 2013, we completed our acquisition of Xing Wei Institute (Hong Kong) Limited, or Xing Wei, a private education technology company that provides training solutions as well as online and mobile training platforms for corporations in China, to expand our service offering with respect to training and consulting for corporations. In December 2014, we made a strategic investment in Master Mind Education Company, or Master Mind, which marks our expansion into China's K-12 education market. In January 2015, we made a strategic investment in Beijing Satech Internet Educational Technology Ltd., or Satech, which marks our expansion into SAT exam-related training market. With the aim of continuing to expand in the overseas education market, we subsequently increased our investment in Satech in April 2016. In September 2015, we made another strategic investment in Brilent Inc., or Brilent, which we expect to offer our clients with services that improve the effectiveness of selecting the most suitable individual for their job openings. In April 2016, we made a strategic investment in Beijing Empower Education Online, Co., Ltd., or EEO, an online education company that operates web-based virtual classroom platforms in China, to further increase our business efforts in online learning and the K-12 education market. In May 2016, we made a strategic investment in Medicine (Beijing) Education Technology Ltd., a China-based online education technology company focused on providing training and exam preparation services in the specialty niche sectors of medicine, pharmacy and healthcare. In June 2016, we made a strategic investment in ApplySquare Education & Technology Co., Ltd., or ApplySquare, which signals our entry into the Chinese higher education market. In July 2016, we made a strategic investment in Beijing GlobalWisdom Information Technology Co., Ltd., or GlobalWisdom, through which we expect to explore growth opportunities in China's online language education market. In February 2017, we entered into a partnership with Nantong MOOC-CN Investment Center (Limited Partnership), or MOOC-CN Investment, pursuant to which MOOC-CN Investment agreed to make a strategic investment to help us expand into the K-12 education assessment market, with particular focus on the development of K-12 education assessment tools and content. In April 2017, we made an additional investment of RMB 5.5 million (\$0.8 million) in EEO, while our equity interest in EEO remained unchanged. To diversify our service offerings and explore further growth opportunities, we continued to make strategic investments in the nine months ended December 31, 2017. For example, in December 2017, we acquired Beijing Qihuang Huizhi Technology Co., Ltd., through which we expect to provide online training services to the Internet Access Service Association of China. As the markets for these offerings are relatively new for us, we cannot assure you that we will succeed in adapting to client needs in these markets or effectively addressing risks associated with this expansion. In the nine months ended December 31, 2017, we recorded an impairment loss of RMB 15.2 million (\$2.3 million) related to the investments in Brilent. Brilent encountered shortage of working capital resulted from continuous negative operating cash flows and loss of key personnel in the fourth quarter of 2017.

It may be difficult for us to accurately predict demand for these and other new service offerings we develop. Furthermore, the PRC government may enact unforeseen regulations and policies that could limit our ability to provide or expand certain services, such as prohibitions on foreign-invested entities engaging in certain businesses. Additional risks that we face expanding in these markets include the following:

- we may underestimate the amount of capital, personnel and other resources required to carry out our expansion plans, which may affect the success of our expansion and/or negatively impact the quality of our other product and service offerings;
- if we are unsuccessful in the relevant new market, it may negatively affect our reputation and the status of our brand in other markets;



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- we may fail to develop sufficient payment collection, technical support and other administrative capabilities necessary to successfully develop and manage our new service offerings on an increasingly large scale; and
- we have recorded impairment losses relating to certain strategic investments and may continue to incur additional impairment losses associated with our future investments which may adversely affect our financial condition and results of operations.

*If we fail to maintain our relationship with major test sponsors, our revenue growth may slow or we may experience a decrease in revenues.*

The success of our service offerings depends on our ability to gain and maintain relevant business relationships, such as our relationship with major test sponsors for computer-based tests in China, our relationship with the licensor of certain test titles, and our relationship with Saville Assessment in relation to psychometric tests for our HR Select employee assessment solution. Factors that are beyond our control may cause our relationship with relevant parties to change. For example, our exclusive Test of English for International Communication, or TOEIC distributor contract ended on February 28, 2014 due to ETS' decision to change its distribution model. Although we are still a distributor and administrator of TOEIC exams in China and signed a non-exclusive distributor contract with ETS on June 23, 2014 (which was subsequently extended on January 20, 2017) to continue the delivery of TOEIC exams to some of our existing institutional clients until December 31, 2019, we had lost a majority of the revenues generated from administering TOEIC exams due to contractual limitations on the scope of TOEIC exam services to selected market segments in China. If we fail to maintain relationship with our major test sponsors, our revenue growth may slow or we may experience a decrease in revenues.

*Failure to comply with the regulations relating to information security and privacy protection, such as breaches or perceived breaches of our security measures relating to test collection, scoring and storage, unauthorized disclosure or misuse of personal data through breach of our computer systems or otherwise, could result in negative publicity and clients loss, expose us to protracted and costly litigation, and harm our business and results of operations.*

The internet industry is facing significant challenges regarding information security and privacy protection, particularly with regard to the collection, storage, transmission and sharing of confidential information, among others. As part of our service offerings, we collect, process, transmit and store highly confidential information, including personal information and test questions, answers and scores. We are required under PRC law to maintain the security and confidentiality of the information we handle as part of our testing services, which is also essential to protecting the integrity and accuracy of the test taking process and retaining our client base. In December 2012, the Standing Committee of the PRC National People's Congress promulgated the Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, to enhance the legal protection of information security and privacy on the internet. The Network Information Protection Decision specifically requires internet operators to take security measures to ensure confidentiality of information of users. We have adopted various security measures pertaining to the collection, processing, transmission or storage of user information. However, any breach or perceived breach in our security measures as a result of third-party action, employee error, and malfeasance or otherwise, or any instances or claims of cheating on tests that we administer could result in liability claims and have a negative impact on our reputation.

The PRC regulatory and enforcement regime with regard to data security and data protection has also been evolving rapidly in recent years. On July 1, 2015, the National People's Congress Standing Committee promulgated the National Security Law, or the New National Security Law, which took effect on the same date and replaced the former National Security Law promulgated in 1993. Under the New National Security Law, we are obligated to safeguard national security by, for example, providing evidence related to activities endangering national security, providing

convenience and assistance for national security work, and providing necessary support and assistance for national security institutions, public security institutions as well as military institutions. As such, we may have to provide data to the PRC government authorities and military institutions to ensure compliance with the New National Security Law. Complying with such regulations could cause us to incur substantial costs, require us to change our data practices in a manner adverse to our business, or even subject us to negative publicity which could harm our reputation with users and negatively affect our business operations and the trading price of our ADSs. In addition, in November 2016, the National People's Congress Standing Committee promulgated the Cyber Security Law, which took effect on June 1, 2017, to protect cyberspace security and order. The Cyber Security Law tightens control of cyber security and sets forth various security protection obligations for network operators. According to the Cyber Security Law, network operators shall, among others, take security measures to protect the network from unauthorized interference, damage and unauthorized access and prevent data from being divulged, stolen or tampered with. In case of any misuses of information collected from our clients or students or any unauthorized interference, damage, or unauthorized or inappropriate disclosure of such information due to our failure to protect it, we could be subject to negative publicity, liability claims or regulatory penalties. Any such negative publicity, liability claims or regulatory penalties could cause us to lose clients, expose us to costly litigation and have a material adverse impact on our business and results of operations.

*If certain tests are not allowed to be administered in China due to test security concerns, our revenue growth may slow or we may experience a decrease in revenues.*

We administered a number of international tests in China, such as TOEIC. In recent years, form leakage and organized cheatings have been frequently reported in the international tests. These tests may be canceled by their owners in order to protect the integrity of their programs. For example, ACT, Inc., owner and developer of the American College Test, or the ACT, canceled the administration of the ACT test in September 2017 at multiple test centers in Asia, including those in Japan, Singapore, Macau, Taiwan and some centers in Hong Kong, due to potential leakage of the test materials. If certain tests that we are administering are not allowed to be taken in China, our revenue growth may slow or we may experience a decrease in revenues.

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***Reductions in public funding available to our clients that are governmental agencies could adversely impact the demands of these agencies and institutions for our products and services.***

We derive a significant portion of our total net revenues from licensing and service fees from Chinese governmental agencies. Demands and ability to pay for our products and services by these agencies are affected by government budgetary cycles, funding availability and government policies. Funding reductions, reallocations or delays could adversely impact demand for our products and services by our clients or reduce the fees these clients are willing to pay for our products and services.

***A significant portion of our revenues are dependent on market acceptance of our E-testing platform and other computer-based testing technologies, and if we are unable to anticipate and meet our clients' technological needs and challenges from new technologies and industry standards, our products and services may lose market acceptance or become obsolete, and our margins and results of operations may be adversely affected.***

Our advanced technologies for the creation and delivery of computer-based tests, including our E-testing platform and our performance-based testing technologies, are a key factor in growing and maintaining our relationships with test sponsors, educational institution clients and educational program content providers. Our future success depends on our ability to upgrade our systems, develop new technologies and anticipate and meet the technical needs of our clients on a regular basis. The emergence in the market of new test creation and delivery technologies or substitute products and services could reduce our competitiveness or render our current technologies and services obsolete. Moreover, if other companies develop similar technologies offering functionality comparable to that of our technologies, pricing pressure may increase and our margins and results of operations may be adversely affected. Additionally, industry standards such as standard interfaces and data exchange protocols may be developed for testing technologies, and if these industry standards are incompatible with our technologies, demands for our technologies, products and services may decline significantly. To the extent we are unable to maintain our market leadership position in key testing technologies or anticipate and respond to technological developments and changes in industry standards in a timely and cost-effective manner, our products and services may lose market acceptance or become obsolete.

***Technical errors or failures in relation to computer-based tests delivered through our test delivery platform could result in negative publicity, loss of clients, liability claims and costly and disruptive litigation.***

Due to the complexity of the technologies we use to create and deliver computer-based tests for our clients, technical errors or failures may occur in relation to these services. These may include errors, failures or bugs in our software applications and test security technologies, breakdowns or failures of our servers and computer networks, and connectivity failures between our networks. While we have not experienced major problems to date due to errors, breakdowns, failures, bugs or defects, we cannot assure you that we will not experience such problems in the future. If such a problem were to occur, it could disrupt or compromise the integrity of the test taking process or the test content and results, which could lead to negative publicity and loss of clients and may subject us to liability claims. Although we have established a formal crisis management system to respond to technical problems, it has never been tested in a real crisis situation. Any litigation or negative publicity resulting from an error or failure, with or without merit, could result in substantial costs and divert management's attention and resources from our business and operations.

***If we fail to maintain a strong brand, our business may not grow and our financial results may be adversely impacted.***

We believe that maintaining and enhancing the value of the ATA brand is important to attracting clients. Our success in maintaining brand awareness will depend on our ability to consistently provide high quality, value-adding, user-friendly and secure products and services. As we expand our product and service offerings, we are increasing our efforts to establish a wider recognition of the ATA brand. To establish a wider recognition of our ATA brand among test takers, test sponsors and companies, we may need to spend significant resources on advertising. As we have limited experience with advertising and other activities required to establish a widely recognized brand, we cannot assure you that we will effectively allocate our resources for these activities or succeed in maintaining and broadening our brand recognition and appeal. If we fail to maintain a strong brand, our business may not grow and our financial results may be adversely impacted.

***Actions by our authorized test centers could lead to damage to our brand and reputation, which could cause us to incur substantial costs and strain our relationships with our clients.***

As of December 31, 2017, we had contractual relationships with 3,344 authorized test centers. We do not own these centers and their employees are not our employees. Under our contracts with these test centers, we require them to provide sufficient facilities to properly administer computer-based tests and to follow prescribed guidelines for facility maintenance and test administration. We also conduct regular reviews of their facilities and operations and provide consulting services on test administration. However, our contractual arrangements with the test centers provide us with only limited ability to oversee their activities, and most test centers engage in other activities, such as serving as classrooms, when not administering tests. If a test center was to engage in an unauthorized or unlawful conduct, whether related to administering computer-based tests or otherwise, our clients, prospective clients and the general public may associate this conduct with our brand, and negative publicity associated with this conduct could harm our reputation and lessen overall demands for computer-based testing services. Furthermore, our business may also be adversely affected if our authorized test centers do not maintain their premises, administer our computer-based tests, or hire qualified personnel and train them properly in a manner consistent with our standards and requirements. In addition, a liability claim against an ATA authorized test center or any center personnel may result in unfavorable publicity for us, our products and services and our other test centers, and could damage our brand and reputation, whether or not the claim is successful. While we may terminate our contracts and relationships with our authorized test centers if any of these events were to occur, we may not be able to identify problems or take actions quickly enough to prevent harm to our reputation.



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***We depend on our key personnel and our business may be severely disrupted if we lose their services and are unable to replace them.***

Our future success is dependent upon the continued services of our key executives, as we rely on their industry experience and expertise in our business operations. In particular, we rely heavily on Kevin Xiaofeng Ma, our chairman and chief executive officer for his business vision, management skills, technical expertise, experience in the testing, IT and education industries and working relationships with many of our clients, shareholders and other participants in the testing, IT and education industries. If Mr. Ma is unable or unwilling to continue in his present positions, or if he joined a competitor or formed a competing company in violation of his employment agreement, we may not be able to replace him easily and our business may be severely disrupted.

***We may face increasing competition from international and domestic competitors. If we fail to successfully compete, our revenues and market share may decrease, and our results of operations may be adversely affected.***

As our business and markets continue to expand, we will face increasing competition, including competition from new entrants, both domestic and international, who will try to gain market share from us. Competitors may introduce new technologies, products and services that have better performance, offer lower prices and gain broader acceptance than our technologies, products and services. Such new products may reduce the overall market for our products and services.

In the computer-based testing services market, we compete primarily on the basis of technology, price, management experience, established infrastructure, reputation and brand. In the future, as more companies enter this market, we believe pricing may become increasingly competitive as well. For our HR Select employee assessment solution, while there are other companies providing services to corporate human resources departments, we are differentiated by our focus on offering more professional testing services with proprietary testing technologies. Traditional Chinese test preparation material providers, such as publishing companies, indirectly compete with our online education services. Increased competition could cause us to lose clients or make it necessary for us to reduce our prices in order to retain our clients, which may negatively affect our revenues and results of operations.

***We may not be able to attract and retain the highly skilled employees we need to support our planned growth.***

Due to intense market competition for highly skilled workers, we have faced difficulties locating experienced and skilled personnel in certain areas, such as administration, marketing, product development, sales, finance and accounting. In particular, we have had difficulty finding personnel with experience in the computer-based testing services market. We cannot assure you that we will be able to attract or retain the key personnel that we will need to achieve our business objectives. Even if we can identify qualified candidates, they may be subject to non-competition agreements with their prior employers that prevent us from hiring them. In addition, we cannot assure you that we will be able to retain our current skilled personnel. According to our contracts with our employees, all of our employees are prohibited from engaging in any activities that compete with our business during the period of their employment and for two years after termination of their employment with us. Furthermore, all employees are prohibited, for a period of two years following termination, from soliciting other employees to leave us and, for a period of five years following termination, from soliciting our existing clients. However, we may have difficulty enforcing these non-competition and non-solicitation provisions in China because the Chinese legal system, especially with respect to the enforcement of such provisions, is still developing.

*Many of our contracts with governmental agencies and public educational institutions take the form of framework agreements and offer little contractual or legal protections, and it may be impractical for us to pursue or obtain legal remedies against these clients.*

Many governmental agencies and other public sector entities in China require the use of simple framework agreements for the procurement of products and services from us that lack many of the detailed aspects of our business arrangements. For example, the terms of service may lack the clarity we would normally have in our contracts with commercial enterprises, or contract terms protecting our intellectual property may not be as clear and detailed as we would normally have in our contracts with commercial enterprises. Moreover, it may not be feasible or practicable for us to take legal actions against our government and public sector clients to enforce our contractual rights. As a result, we may lack the same contractual or legal protections, or ability to enforce such protections, that we would normally have under the contracts we typically enter into with our other clients.

*Unauthorized use of our intellectual property by third parties, including infringement of our ATA brand, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.*

Our copyrights, trademarks, trade secrets, patents and other intellectual property are important to our success. In particular, we believe that our ATA brand name represents a valuable asset as we have sought to gain a reputation for high quality and secure testing services and advanced testing technologies within our markets. Unauthorized use of any of our intellectual property may adversely affect our business and reputation. We rely on trademark, patent, and copyright law, trade secret protection and confidentiality agreements with our employees, clients, business partners and others to protect our intellectual property rights. Nevertheless, it may be possible for third parties to obtain and use our intellectual property without authorization. The unauthorized use of intellectual property is common and widespread in China and enforcement of intellectual property rights by Chinese regulatory agencies is inconsistent. Moreover, litigation may be necessary in the future to enforce our intellectual property rights. Future litigation could result in substantial costs and diversion of our management's attention and resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations. Given the relative unpredictability of China's legal system and potential difficulties enforcing a court judgment in China, there is no guarantee that we would be able to halt the unauthorized use of our intellectual property through litigation.

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***We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us, may materially disrupt our business.***

We cannot assure you that our business operations, in particular, our software, trademarks, know-how and other technologies do not or will not infringe upon patents, valid copyrights or other intellectual property rights held by third parties. We may become subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. For example, we have been unable to register our ATA trademark with the China Trademark Office due to similarity with other trademarks. Although we have not received notice of trademark infringement claims since we began using the mark in 1999 and believe that the risk of litigation is remote, we may be subject to such claims in the future. If we were found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses, and may be forced to divert management and other resources from our business operations, to defend against these third-party infringement claims, regardless of their merit. Successful infringement or licensing claims against us may result in substantial monetary liabilities or may materially disrupt the conduct of our business by restricting or prohibiting our use of the intellectual property in question.

***Because there is limited business insurance coverage in China, any business disruption or litigation we experience might result in our incurring substantial costs and diverting significant resources to handle such disruption or litigation.***

The insurance industry in China is not fully developed. Insurance companies in China offer limited business insurance products. While business disruption insurance may be available to a limited extent in China, we have determined that the risks of disruption and the difficulties and costs associated with acquiring such insurance render it commercially impractical for us to have such insurance. As a result, we do not have any business liability, disruption or litigation insurance coverage for our operations in China. Any business disruption or litigation might result in our incurring substantial costs and the diversion of resources.

***We may face challenges and risks in connection with possible investments and acquisitions as well as forming joint ventures, including identifying suitable opportunities and integrating acquired or new businesses and assets with our existing operations, which could interrupt our business operations or adversely affect our results of operations.***

As part of our business strategy, we may seek to broaden our service offerings, obtain additional clients and strengthen our service quality by acquiring other companies or businesses or making strategic investments. However, our ability to implement our acquisition or investment strategy will depend on a number of factors, including the availability of suitable acquisition candidates at an acceptable cost or at all, our ability to compete effectively to attract and reach agreements with acquisition or investment candidates or joint venture partners on commercially reasonable terms, and the availability of financing to complete acquisitions or investment or joint ventures as well as our ability to obtain any required government approvals or licenses. As such, the identification of suitable acquisition or investment targets or joint venture candidates and the consummation of proposed acquisition or investment or joint venture transactions could be difficult, time consuming and costly, and we may not be able to successfully capitalize on identified opportunities. In addition, we cannot assure you that any particular acquisition or investment or joint venture transaction will produce the intended benefits or synergies. For example, we recorded an impairment loss of RMB 15.2 million (US\$2.3 million) in the nine months ended December 31, 2017 related to one of our strategic investments. In addition, we may not be successful in integrating acquisitions with our existing operations and personnel. Moreover, the acquisitions or investment we pursue may require us to expend significant management and other resources, which may result in interruption to our business operations.

There are other risks associated with acquisitions, including:

- unforeseen or hidden liabilities, including exposure to legal proceedings, associated with newly acquired companies;
- failure to generate sufficient revenues to offset the costs and expenses of acquisitions;
- integration of the management of the acquired business into our own;
- potential impairment losses or amortization expenses relating to goodwill and intangible assets arising from any of such acquisitions, which may materially reduce our net income or result in a net loss;
- potential conflicts with our existing employees as a result of our integration of newly acquired companies; and
- possible contravention of Chinese regulations applicable to such acquisitions.

Furthermore, raising capital to finance acquisitions or investments could cause earnings or ownership dilution to your shareholding interests, which in turn could result in losses to you. Any one or a combination of the above risks could interrupt our business operations and adversely affect our results of operations.

***We may need additional capital and any failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our product and service offerings to respond to market demands or competitive challenges.***

Capital requirements are difficult to plan in the rapidly changing industries in which we operate. We believe that our current cash and expected future cash flows from operations will be sufficient to meet our anticipated working capital and capital expenditures for the next 12 months and the foreseeable future beyond that point. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our sources of liquidity are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financing covenants that would restrict our operations. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including:

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- investors' perception of, and demand for, securities of computer-based testing and education companies;
- conditions of the U.S., PRC and other capital markets in which we may seek to raise funds;
- our future results of operations and financial condition;
- Chinese government regulations of foreign investment in China;
- economic, political and other conditions in China; and
- Chinese government policies relating to the borrowing and remittance of foreign currency outside China.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our product and service offerings to respond to market demand or competitive challenges.

***We may be unable to maintain an effective system of internal control over financial reporting, and as a result we may be unable to accurately report our financial results or prevent fraud.***

We are subject to provisions of the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual reports on Form 20-F. Our management concluded that our internal control over financial reporting is effective as of December 31, 2017, and our independent registered public accounting firm reported on our internal controls over financial reporting. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. Our failure to maintain effective internal control over financial reporting could result in a loss of investor confidence in the reliability of our reporting processes, which could materially and adversely affect the trading price of our ADSs.

Our reporting obligations as a public company will continue to place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Our failure to maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial reporting processes, which in turn could harm our business and negatively impact the trading price of our ADSs.

***Our independent registered public accounting firm's audit documentation related to their audit reports included in this transition report may include audit documentation located in China. The Public Company Accounting Oversight Board currently cannot inspect audit documentation located in China and, as such, you may be deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, or SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. However, audit documentations located in China are not currently inspected by the PCAOB because the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities.

Inspections conducted by the PCAOB outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating audit documentation located in China and its related quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of the PCAOB to conduct inspections in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to audits outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***Our independent registered public accounting firm may be temporarily suspended from practicing before the SEC if unable to continue to satisfy the SEC investigation requests in the future. If a delay in completion of our audit process occurs as a result, we could be unable to timely file certain reports with the SEC, which may lead to the delisting of our stock.***

On January 22, 2014, Judge Cameron Elliot, an SEC administrative law judge, issued an initial decision suspending the Chinese member firms of the Big Four accounting firms, including our independent registered public accounting firm, from practicing before the SEC for six months. In February 2014, the initial decision was appealed. While under appeal and in February 2015, the Chinese member firms of the Big Four accounting firms reached a settlement with the SEC. As part of the settlement, each of the Chinese member firms of Big Four accounting firms agreed to settlement terms that include a censure, undertakings to make a payment to the SEC, procedures and undertakings as to future requests for documents by the SEC, and possible additional proceedings and remedies should those undertakings not be adhered to.

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If the settlement terms are not adhered to, our independent registered public accounting firm may be suspended from practicing before the SEC, which could in turn delay the timely filing of our financial statements with the SEC. In addition, it could be difficult for us to timely identify and engage another qualified independent registered public accounting firm to replace our current one. A delinquency in our filings with the SEC may result in NASDAQ initiating investigation procedures, which could adversely harm our reputation and have other material adverse effects on our overall growth and prospects.

***We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. holders of our ADSs or common shares.***

We believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for the nine-month period ended December 31, 2017, and we do not expect to be a PFIC in any future taxable year. However, PFIC status is tested each year and depends on the composition of our assets and income and the value of our assets from time to time. Since we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets and, since the value of our assets is to be determined in large part by reference to the market prices of our ADSs and common shares, which is likely to fluctuate over time, there can be no assurance that we will not be a PFIC for any future taxable year. If we are a PFIC for any taxable year during which a U.S. investor held our ADSs or common shares, certain adverse U.S. federal income tax consequences would apply to the U.S. investor. See Item 10.E. Additional Information Taxation United States Federal Income Taxation Passive Foreign Investment Company.

**Risks Relating to Regulations of Our Business**

***If the China Securities Regulatory Commission, or CSRC, or another PRC regulatory agency determines that CSRC approval was required in connection with our initial public offering, we may become subject to penalties.***

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006. The M&A Rule, among other things, requires that an offshore company controlled by PRC companies or individuals that has acquired a PRC domestic company for the purpose of listing the PRC domestic company's equity interest on an overseas stock exchange must obtain the approval of the CSRC prior to the listing and trading of such offshore company's securities on an overseas stock exchange. On September 21, 2006, the CSRC, pursuant to the M&A Rule, published on its official website procedures specifying documents and materials required to be submitted to it by offshore companies seeking CSRC approval of their overseas listings.

Our PRC counsel, Jincheng Tongda & Neal Law Firm, advised us that CSRC approval was not required for our initial public offering in February 2008 because the CSRC approval required under the M&A Rule only applies to an offshore company that has acquired a domestic PRC company for the purpose of listing the domestic PRC company's equity interest on an overseas stock exchange, while (i) we obtained our equity interest in each of our PRC subsidiaries by means of direct investment other than by acquisition of the equity or assets of a PRC domestic company in 2008, (ii) our former contractual arrangements with ATA Online (see Item 7.B. Major Shareholders and Related Party Transactions Related Party Transactions. for more details) do not constitute the acquisition of ATA Online, (iii) the M&A Rule does not apply to the acquisition by ATA Learning, a wholly foreign owned enterprise, and (iv) although Article 11 of the M&A Rule prohibits the circumvention of the M&A Rule through establishing foreign-invested enterprises, or FIEs, ATA Learning was established in 2003 before the M&A Rule was promulgated, which makes this acquisition not a circumvention of the M&A Rule. However, if it is determined that CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, or take other actions that could have a material

adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our ADSs.

***Because we may rely on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for our cash requirements, restrictions under Chinese law on their ability to make such payments could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our businesses.***

We have adopted a holding company structure, and our holding companies may rely on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for their cash requirements, including the funds necessary to service any debt we may incur or financing we may need for operations other than through our Chinese subsidiaries. Chinese legal restrictions permit payments of dividends by our Chinese subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC GAAP. Our Chinese subsidiaries are also required under Chinese laws and regulations to allocate at least 10% of their after-tax profits determined in accordance with PRC GAAP to statutory reserves until such reserves reach 50% of the company's registered capital. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. As of December 31, 2017, our Chinese subsidiaries allocated RMB 62.3 million (\$9.6 million) to the general reserve fund, which is restricted for distribution to the Company. We are in full compliance with PRC laws and regulations relating to such allocations. Any limitations on the ability of our Chinese subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

***The discontinuation of any of the preferential tax treatments currently enjoyed by our subsidiaries in the PRC could materially increase our tax obligations.***

Effective from January 1, 2008, the PRC Enterprise Income Tax Law, or the EIT Law, imposes a tax rate of 25% on all enterprises, including foreign-invested enterprises, and terminates many of the tax exemptions, reductions and preferential treatments available under previous tax laws. However, enterprises that were established before March 16, 2007 and already enjoyed preferential tax treatments may continue to enjoy them (i) in the case of certain preferential tax rates that are specified by tax legislations for a transition period of five years from January 1, 2008, or (ii) in the case of tax exemption or reduction for a specified term, until the expiration of such term.



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Under the EIT Law, qualified high-and-new technology enterprises eligible for key support from the State ( HNTe ) are entitled to a preferential tax rate of 15%, subject to an annual review during the valid period of their HNTe certificates. If an HNTe enterprise no longer satisfies the related accreditation criteria, its certificate will be cancelled and it will cease to be entitled to the related tax incentives. In December 2008, ATA Testing Authority (Beijing) Limited, or ATA Testing, was recognized as an HNTe and obtained its HNTe certificate, which entitled ATA Testing to a preferential tax rate of 15% for calendar years 2008 to 2010. In October 2011, ATA Testing successfully renewed its HNTe certificate for another three years from 2011 and therefore is entitled to a preferential tax rate of 15% for calendar years 2011 to 2013. In October 2014, ATA Testing successfully renewed its HNTe certificate for another three years from 2014 and therefore is entitled to a preferential tax rate of 15% for calendar years 2014 to 2016. In October 2017, ATA Testing successfully renewed its HNTe certificate for another three years from 2017 and therefore is entitled to a preferential tax rate of 15% for calendar years 2017 to 2019. In the event ATA Testing is unable to meet all the requirements of HNTe, it will be subject to the standard statutory enterprise income tax rate of 25%. In December 2009, each of ATA Learning, ATA Online, and Muhua Shangce Learning Data & Technology (Beijing) Limited ( Muhua Shangce , formerly known as ATA Learning Data & Technology (Beijing) Limited, or ATA Data and Beijing Jindixin Software Technology Limited, or Beijing JDx), received an approval from the tax authority that it qualified as an HNTe for three years, entitling them to a preferential income tax rate of 15% for calendar years 2009 to 2011. From May 2012 to July 2012, ATA Learning, ATA Online and Muhua Shangce successfully renewed their HNTe certificates, respectively, for another three years from 2012 and therefore are entitled to a preferential tax rate of 15% for calendar years 2012 to 2014. In November 2015, ATA Learning, ATA Online and Muhua Shangce successfully renewed their HNTe certificates for another three years from 2015 and therefore are entitled to a preferential tax rate of 15% for calendar years 2015 to 2017. ATA Online and Muhua Shangce are currently in the process of re-applying for their HNTe certificates for another three years. Upon successful renewal and meeting all the requirements of HNTe, ATA Online and Muhua Shangce would be entitled to a preferential tax rate of 15% retroactively from January 1, 2018. In the event ATA Online and Muhua Shangce are unable to renew their HNTe certificates and not meeting all the requirements of HNTe, they will be subject to the standard statutory enterprise income tax rate of 25%. We cannot assure you that ATA Online and Muhua Shangce will continue to qualify as an HNTe after the expiration of their HNTe certificates, or that the local tax authorities will not, in the future, change their position and revoke any of our past preferential tax treatments.

The discontinuation of any of our preferential tax treatments could materially increase our tax obligations and adversely affect our business, operating results and financial condition.

***Under the EIT Law, we may be classified as a resident enterprise of China. Such classification will likely result in unfavorable tax consequences to us and U.S. holders of our ADSs or common shares.***

Under the EIT Law, an enterprise established outside of China with its de facto management body in China is considered a resident enterprise, meaning that it can be treated the same as a Chinese enterprise for enterprise income tax purposes. In addition, a tax circular issued by the State Administration of Taxation, or the SAT, on April 22, 2009 regarding the standards used to classify certain Chinese controlled enterprises established outside of China as resident enterprises, or Circular 82, clarified that dividends and other income paid by such resident enterprises will be considered to be PRC source income, subject to PRC withholding tax currently at a rate of 10%, when paid to non-PRC enterprise shareholders. Circular 82 also subjects such resident enterprises to various reporting requirements with the PRC tax authorities. Under the Implementation Rules to the EIT Law, a de facto management body is defined as a body that exercises substantial and overall management and control over the manufacturing and business operations, personnel, and human resources, finances and properties of an enterprise. In addition, Circular 82 details that certain Chinese-controlled enterprises will be classified as resident enterprises if the following are located or resident in China: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, company seal, and minutes of board meetings and shareholders meetings;

and half or more of the senior management or directors having voting rights.

Currently, a substantial majority of the members of our management team as well as the management team of some of our offshore holding companies are located in China. However, Circular 82 only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by PRC individuals or foreign entities like us. In the absence of detailed implementing regulations or other guidance determining that offshore companies controlled by PRC individuals or foreign entities like us are PRC resident enterprises, we do not currently consider our Company or any of our overseas subsidiaries to be a PRC resident enterprise.

However, the SAT may take the view that the determining criteria set forth in Circular 82 reflects the general position on how the de facto management body test should be applied in determining the tax resident status of all offshore enterprises. Or additional implementing regulations or guidance may be issued determining that our Cayman Islands holding company is a resident enterprise for PRC enterprise income tax purposes. If the PRC tax authorities determine that our Cayman Islands holding company is a resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we will be subject to enterprise income tax at a rate of 25% on our worldwide income as well as PRC enterprise income tax reporting obligations. This would mean that income such as interest on offering proceeds and other non-China source income would be subject to PRC enterprise income tax at a rate of 25%, in comparison to no taxation in the Cayman Islands. Second, although under the EIT Law and its implementing rules dividends paid to us by our PRC subsidiaries would qualify as tax-exempt income, we cannot guarantee that such dividends will not be subject to a 10% withholding tax, as the PRC foreign exchange control authorities, which enforce the withholding tax, have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes. Finally, a 10% withholding tax will be imposed on dividends we pay to our non-PRC enterprise shareholders, and future guidance may extend the withholding tax to dividends we pay to our non-PRC individual shareholders and gains derived by our non-PRC shareholders from transferring our ADSs or common shares. Similar results would follow if our BVI holding company is considered a PRC resident enterprise. In addition to the uncertainty in how the new resident enterprise classification could apply, it is also possible that the rules may change in the future, possibly with retroactive effect. We are closely monitoring the development of this area of rules and are evaluating appropriate arrangements of our management activity to avoid being classified as a PRC resident enterprise.

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***China's regulations of loans and direct investments by offshore holding companies to their Chinese subsidiaries and consolidated variable interest entity may restrict our ability to execute our business strategy.***

In order to execute our business strategy, we must invest the funds in our Chinese subsidiaries and consolidated variable interest entity through loans or capital contributions. Under applicable Chinese laws, any loan made by us to ATA Testing or ATA Learning, both of which are foreign-invested enterprises, cannot exceed statutory limits tied to each company's registered capital and total investment as approved by the Ministry of Commerce or its local counterpart, and all such loans must be registered with China's State Administration of Foreign Exchange, or SAFE, or its local counterpart. Loans by us to ATA Online, as a domestic PRC enterprise, must be approved by the relevant government authority and must also be registered with SAFE. According to a notice issued by the People's Bank of China regarding foreign debt on January 11, 2017, the maximum amount of foreign debt that each of our PRC subsidiaries or consolidated variable interest entity or other PRC domestic entities is allowed to borrow is two times of their respective net assets. Pursuant to this notice and other PRC laws and regulations regarding foreign debt, within a one-year grace period starting from January 11, 2017, the statutory limit for the total amount of foreign debt of a foreign-invested company, which is subject to its own election, is either the difference between the amount of total investment and the amount of registered capital as approved by the Ministry of Commerce or its local counterpart, or two times of their respective net assets. With respect to our consolidated variable interest entity or other domestic PRC entities, the limit for the total amount of foreign debt is twice of their respective net assets pursuant to the notice.

We may also decide to finance ATA Learning and ATA Testing by increasing their registered capital through capital contributions. Any capital contributions to ATA Learning and ATA Testing must be filed with the Ministry of Commerce or its local counterpart. SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or SAFE Circular 19, on March 30, 2015. According to SAFE Circular 19, a foreign-invested enterprise will be able to convert foreign exchange in its capital account into RMB at any time. In order to use the converted RMB, the foreign-invested enterprise still needs to provide supporting documents and go through the review process with the banks. A failure by us to obtain the necessary government approvals or complete any required registrations or other procedures for a capital contribution, an increase in approved total investment or a loan on a timely basis, may restrict our ability to execute our business strategy.

In June 2016, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange Settlement, or SAFE Circular No. 16, which removed certain restrictions previously provided under several SAFE circulars, including the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises, or SAFE Circular No. 142, in respect of conversion by a foreign-invested enterprise of foreign currency registered capital into RMB and use of such RMB capital. However, SAFE Circular No. 16 continues to prohibit foreign-invested enterprises from, among other things, using RMB fund converted from its foreign exchange capitals for expenditure beyond its business scope, and providing loans to non-affiliated enterprises except as permitted in the business scope.

***A failure by our shareholders who are Chinese citizens or residents in China to comply with regulations issued by SAFE could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities or subject us to liabilities under Chinese laws, which could adversely affect our business and prospects.***

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle". SAFE Circular 37 further requires amendment to the

registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Our significant shareholder, Kevin Xiaofeng Ma, has completed his registration with SAFE, and we have urged our other Chinese resident shareholders to register under SAFE Circular 37 and they are currently in the application process. However, we cannot assure you that their applications will be accepted by SAFE. Failure by such shareholders to comply with SAFE Circular 37 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects. See Item 3.D. Key Information Risk Factors Risks Relating to Regulations of Our Business. Because we may rely on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for our cash requirements, restrictions under Chinese law on their ability to make such payments could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to you, and otherwise fund and conduct our businesses.

Furthermore, as there is uncertainty concerning the reconciliation of these SAFE regulations with other approval requirements, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. We cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

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*We may be subject to fines and legal sanctions imposed by SAFE or other Chinese government authorities if we or our Chinese employees fail to comply with Chinese regulations relating to employee share options granted by offshore listed companies to Chinese citizens.*

Under applicable PRC regulations, Chinese citizens who are granted share options by an offshore listed company are required, through a Chinese agent, which can be a Chinese branch or representative of the offshore listed company, a Chinese institution which has controlling relationship or actual control relationship with the offshore listed company or a Chinese institution qualified for asset custody business, to register with SAFE and complete certain other procedures, including applications for foreign exchange payment quotas and opening special bank accounts. We and our Chinese employees who have been granted share options are subject to such PRC regulations. If we or our Chinese employees fail to comply with these regulations, we or our Chinese employees may be subject to fines and legal sanctions imposed by SAFE or other Chinese government authorities, which may prevent us from further granting options under our share incentive plans to our employees. Such events could adversely affect our business operations. See Item 4.B. Information on the Company Business overview Regulation SAFE Regulations on Employee Share Options.

**Risks Relating to Doing Business in the People's Republic of China**

*China's economic, political and social conditions, as well as changes in any government policies, laws and regulations, could adversely affect the overall economy in China or the prospects of the industries in which we operate, which in turn could reduce our net revenues.*

Substantially all of our operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are subject, to a significant extent, to economic, political and social developments in China.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese economy has been transitioning from a planned economy to a more market-oriented economy since the late 1970s, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through the allocation of resources, controlling the incurrence and payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Changes in any of these policies, laws and regulations could adversely affect the overall economy in China or the prospects of the industries in which we operate, which could harm our business.

China's social and political conditions are also not as stable as those of the United States and other developed countries. Any sudden changes to China's political system or the occurrence of widespread social unrest could have negative effects on our business and results of operations. In addition, China has contentious relations with some of its neighbors, most notably Taiwan. A significant further deterioration in such relations could have negative effects on the Chinese economy and lead to changes in governmental policies that would be adverse to our business interests.

*The Chinese legal system has inherent uncertainties that could limit the legal protections available to you and us.*

Unlike common law systems, the Chinese legal system is based on written statutes and decided legal cases have little precedential value. Since 1979, the Chinese government has promulgated a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has been to significantly enhance the protections afforded to various forms of foreign investment in China. Our Chinese operating subsidiaries, ATA Learning and ATA Testing, are wholly foreign-owned enterprises, which are enterprises incorporated in China and wholly-owned by foreign investors, and are subject to laws and regulations applicable to foreign investment in China in general and laws and regulations applicable to wholly foreign-owned enterprises in particular. Our Chinese operating subsidiary, ATA Online, is subject to laws and regulations governing the formation and conduct of domestic PRC companies. Relevant Chinese laws, regulations and legal requirements may change frequently, and their interpretation and enforcement involve uncertainties. In addition, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since Chinese administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Such uncertainties, including the inability to enforce our contracts and intellectual property rights, could materially and adversely affect our business and operations. Accordingly, we cannot predict the effect of future developments in the Chinese legal system, particularly with regard to the computer-based testing services sectors, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you.

***Restrictions on currency exchange may limit our ability to utilize our revenues effectively and the ability of our Chinese subsidiaries to obtain financing.***

Majority of our revenues and operating expenses are denominated in Renminbi. Restrictions on currency exchange imposed by the Chinese government may limit our ability to utilize revenues generated in Renminbi to fund our business activities outside China, if any, or expenditures denominated in foreign currencies. Under current Chinese regulations, Renminbi may be freely converted into foreign currency for payments relating to current account transactions, which include, among other things, dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Revenues generated in the PRC can be converted into foreign currency to pay salaries of employees located outside of the PRC upon the employee completing registration procedures. Revenues generated in the PRC can also be used to pay off debt generated outside of the PRC, provided that the Company completes relevant foreign debt registration or approval requirements. Although the Renminbi has been fully convertible for current account transactions since 1996, we cannot assure you that the relevant Chinese government authorities will not limit or eliminate our ability to purchase and retain foreign currencies for current account transactions in the future.

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Conversion of Renminbi into foreign currencies and of foreign currencies into Renminbi for payments relating to capital account transactions, which include, among other things, investments, loans and acquisitions of land and other fixed assets overseas, generally requires the approval of SAFE and other relevant Chinese governmental authorities. Restrictions on convertibility of Renminbi for capital account transactions could affect the ability of our Chinese subsidiaries to make investments overseas or to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

***Fluctuations in exchange rates could result in foreign currency exchange losses.***

Because substantially all of our revenues and expenditures are denominated in Renminbi, fluctuations in the exchange rate between U.S. dollar and Renminbi will affect our balance sheet and earnings per share in U.S. dollars. In addition, appreciation or depreciation in value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in exchange rate will also affect the relative value of any dividend we issue that will be exchanged into U.S. dollars and earnings from and the value of any U.S. dollar-denominated investments we make in the future.

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. The People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by Chinese exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

***Any future outbreak of severe acute respiratory syndrome or avian flu in China, or similar adverse public health developments, may disrupt our business and operations.***

Our business and operations could be materially and adversely affected by the outbreak of avian influenza, severe acute respiratory syndrome, or SARS, or other similar adverse public health developments. In recent years, there have been reports on the occurrences of avian influenza in various parts of China and neighboring countries, including confirmed human cases. Any prolonged adverse public health development may result in health or other government authorities requiring the closure of our offices or the offices of our clients, or the cancellation of exams or classes to avoid students and others from congregating in closed spaces. Such occurrences would disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, SARS or any other epidemic.

**Risks Related to Our Corporate Structure**

***If the PRC government deems that the contractual arrangements in relation to our variable interest entity do not comply with PRC regulatory restrictions on foreign investment in the relevant industries, or if these regulations or the interpretation of existing regulations***

*change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.*

We are a Cayman Islands company and our PRC subsidiaries are considered as foreign-invested enterprises. Accordingly, they are not eligible to provide certain restricted services related to our businesses. As a result, we conduct or will conduct such business activities through ATA Intelligent Learning (Beijing) Technology Limited, or ATA Intelligent Learning.

ATA Intelligent Learning is 90% owned by Mr. Kevin Xiaofeng Ma, our chairman of the board and chief executive officer, and 10% owned by Mr. Haichang Xiong, our general counsel. Mr. Ma and Mr. Xiong are PRC citizens. We entered into a series of contractual arrangements with ATA Intelligent Learning and its shareholders, which enable us to:

- exercise effective control over ATA Intelligent Learning;
- receive substantially all of the economic benefits of ATA Intelligent Learning; and
- have an exclusive option to purchase all or part of the equity interests in ATA Intelligent Learning when and to the extent permitted by PRC law.

Because of these contractual arrangements, we are the primary beneficiary of ATA Intelligent Learning and hence consolidate its financial results as ATA Intelligent Learning. For a detailed discussion of these contractual arrangements, see Item 4.A. Information on the Company History and Development of the Company Contractual Arrangements with ATA Intelligent Learning .

In the opinion of Jincheng Tongda & Neal Law Firm, our PRC legal counsel, the above contractual arrangements are legally binding and enforceable and do not violate current PRC laws and regulations. However, there are uncertainties regarding the interpretation and application of existing and future PRC laws and regulations. The Company cannot assure that the PRC regulatory authorities will not ultimately take a contrary view to its opinion. If the current ownership structure of the Company and the contractual arrangements with ATA Intelligent Learning are found to be in violation of any existing or future PRC laws and regulations, the PRC government could:



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- revoke the Company's business and operating licenses;
- levy fines on the Company;
- confiscate any of the Company's income that they deem to be obtained through illegal operations;
- shut down a portion or all of the Company's servers or block a portion or all of the Company's website;
- discontinue or restrict the Company's operations in PRC;
- impose conditions or requirements with which the Company may not be able to comply;
- require the Company to restructure its corporate and contractual structure;
- take other regulatory or enforcement actions that could be harmful to the Company's business.

We have relied and expect to continue to rely on contractual arrangements with ATA Intelligent Learning and its shareholders to explore opportunities and operate businesses in the international education business sector, which include but are not limited to, training courseware, study tours, online trainings and platforms, etc. For a description of these contractual arrangements, see Item 4.A. Information on the Company History and Development of the Company Contractual Arrangements with ATA Intelligent Learning. These contractual arrangements may not be as effective as direct ownership in providing us with control over ATA Intelligent Learning.

If we had direct ownership of ATA Intelligent Learning, we would be able to exercise our rights as a shareholder to effect changes in its board of directors, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, under the current contractual arrangements, we rely on the performance by ATA Intelligent Learning and its shareholders of their obligations under the contracts to exercise control over ATA Intelligent Learning. However, the shareholders of ATA Intelligent Learning may not act in the best interests of our company or may not perform their obligations under these contracts. Such risks exist throughout the period in which we intend to operate our business through the contractual arrangements with ATA Intelligent Learning. We may replace the shareholders of ATA Intelligent Learning at any time pursuant to our contractual arrangements with them and its shareholders. However, if any dispute relating to these contracts remains unresolved, we will have to enforce our rights under these contracts through the operations of PRC law and courts and therefore will be subject to uncertainties in the PRC legal system. See Item 3.D. Key Information Risk Factors Risks Related to Our Corporate Structure Any failure by ATA Intelligent Learning or its shareholders to perform their obligations under our contractual arrangements with them would have a

material and adverse effect on our business. Therefore, our contractual arrangements with ATA Intelligent Learning may not be as effective in ensuring our control over the relevant portion of our business operations as direct ownership would be.

***Any failure by ATA Intelligent Learning or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.***

If ATA Intelligent Learning or its shareholders fail to perform their obligations under the contractual arrangements, we may have to incur substantial costs and expend additional resources to enforce such arrangements. We may also have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot assure to be effective. For example, if the shareholders of ATA Intelligent Learning were to refuse to transfer their equity interest in ATA Intelligent Learning to us or our designee when we exercise the purchase option pursuant to these contractual arrangements, or if they were otherwise to act in bad faith toward us, we may have to take legal actions to compel them to perform their contractual obligations.

All the agreements under our contractual arrangements are governed by PRC law. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. The legal system in the PRC is not as developed as in some other jurisdictions, such as the United States. See Item 3.D. Key Information Risk Factors Risks Relating to Doing Business in the People's Republic of China The Chinese legal system has inherent uncertainties that could limit the legal protections available to you and us. Meanwhile, there are very few precedents and little formal guidance as to how contractual arrangements in the context of a variable interest entity should be interpreted or enforced under PRC law, and as a result it may be difficult to predict how an arbitration panel would view such contractual arrangements. As a result, uncertainties in the PRC legal system could limit our ability to enforce these contractual arrangements. Additionally, under PRC law, rulings by arbitrators are final, parties cannot appeal the arbitration results in courts, and if the losing parties fail to carry out the arbitration awards within a prescribed time limit, the prevailing parties may only enforce the arbitration awards in PRC courts through arbitration award recognition proceedings, which would require additional expenses and delay.

In the event we are unable to enforce our contractual arrangements, we may not be able to exert effective control over ATA Intelligent Learning, and our ability to conduct relevant businesses may be negatively affected.

***The shareholders of ATA Intelligent Learning may have potential conflicts of interest with us, which may materially and adversely affect our businesses and financial conditions.***

Mr. Kevin Xiaofeng Ma and Mr. Haichang Xiong are the shareholders of ATA Intelligent Learning. Mr. Kevin Xiaofeng Ma is our chairman and chief executive officer, and Mr. Haichang Xiong is our general counsel. The shareholders of ATA Intelligent Learning may have potential conflicts of interest with us. These shareholders may breach, or cause ATA Intelligent Learning to breach, or refuse to renew, the existing contractual arrangements we have with them and we would have a material and adverse effect to effectively control ATA Intelligent Learning, and hence substantially all the economic benefits received by ATA Intelligent Learning. For example, the shareholders may cause our agreements with ATA Intelligent Learning to perform in a manner adverse to us by, among other things, failing to remit payments due to us under the contractual arrangements on a timely basis. We cannot assure you that when conflicts of interest arise, any or all of these shareholders will act in the best interests of our Company or such conflicts will be resolved in our favor.

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Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our Company. Mr. Kevin Xiaofeng Ma is also the chairman of the board of directors and chief executive officer of the Company. We rely on Mr. Ma to abide by the laws of the Cayman Islands and China, where directors owe fiduciary duties to the company that requires them to act in good faith and in what they believe to be the best interests of the company and not to use their positions for personal gains. If we cannot resolve any conflicts of interest or dispute between us and the shareholders of ATA Intelligent Learning, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

***Contractual arrangements in relation to ATA Intelligent Learning may be subject to scrutiny by the PRC tax authorities and they may determine that we or our PRC variable interest entity owe additional taxes, which could negatively affect our financial condition and the value of your investment.***

Under applicable PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the contractual arrangements between ATA Testing and ATA Intelligent Learning in China, and its shareholders were not entered into on an arm's length basis and in such a way as to result in an impermissible reduction in taxes under applicable PRC laws, rules and regulations, and to adjust ATA Intelligent Learning's income in the form of a transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in a reduction of expense deductions recorded by ATA Intelligent Learning for PRC tax purposes, which could in turn increase the tax liabilities. In addition to transfer pricing adjustment, the PRC tax authorities may also enquire about the substance of the consulting fee to be paid to ATA Testing pursuant to applicable PRC laws. If the consulting fees do not have business substance or are not authentic, they may not be deductible and may result in additional tax liability to ATA Intelligent Learning.

Moreover, the PRC tax authorities may impose punitive interest on ATA Intelligent Learning for the adjusted but unpaid taxes at the rate of 5% over the basic RMB lending rate published by the People's Bank of China to be applied for a period according to the applicable regulations. Our financial position could be materially and adversely affected if ATA Intelligent Learning's tax liabilities increase or if they are required to pay punitive interest.

**Risks Relating to Our ADSs**

***Our ADS price and the ADS or stock prices of other technology companies with business operations primarily in China, have fluctuated widely in recent years, which could result in substantial losses to investors.***

The trading prices of our ADSs are volatile, and this volatility may continue. For instance, between April 1, 2017 and March 31, 2018, our ADS price as reported on Nasdaq ranged between a low of \$3.40 and a high of \$6.62. Numerous factors that are beyond our control may cause the market price of our ADSs to fluctuate significantly. In particular, the performance and fluctuation of the market prices of other technology companies with business operations mainly in China that have listed their securities in the United States may affect the volatility in the price of and trading volumes for our ADSs. The trading performances of these Chinese companies' securities at the time of or after their offerings may affect the overall investor sentiment towards Chinese companies listed in the United States and consequently may impact the trading performance of our ADSs. These broad market and industry factors may significantly affect the market price

and volatility of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile for specific business reasons. Factors such as variations in our revenues, earnings and cash flow, announcements of new investments, cooperation arrangements or acquisitions, and fluctuations in market prices for our services could cause the market price of our ADSs to change substantially. Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade. We cannot give any assurance that these factors will not occur in the future.

***Although publicly traded, the trading market in our ADSs has been substantially less liquid than the ADSs or stock of many companies quoted on the Nasdaq Global Market, and this low trading volume may adversely affect the price of our ADSs.***

Although our ADSs are traded on the Nasdaq Global Market, the trading volume of our ADSs has generally been very low. Reported average daily trading volume of our ADSs for the three-month period ended March 31, 2018 was approximately 12,852 ADSs. Limited trading volume will subject our ADSs to greater price volatility and may make it difficult for our shareholders to sell their ADSs at a price that is attractive to them, if at all.

***The sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.***

Sales of substantial amounts of our ADSs in the public market or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our future ability to raise capital through offerings of our ADSs.

As of April 5, 2018, there were 47,754,386 common shares outstanding. In addition, there were outstanding options to purchase an aggregate of 2,177,067 common shares, including options to purchase an aggregate of 1,299,283 common shares immediately exercisable as of April 5, 2018. All of the ADSs sold in our initial public offering are freely tradable without restriction or further registration under the U.S. Securities Act of 1933, or the Securities Act, unless held by our affiliates as that term is defined in Rule 144 under the Securities Act. Subject to applicable restrictions and limitations under Rule 144 of the Securities Act of 1933, all of our shares outstanding as of the date of this transition report are eligible for sale in the public market. In addition, the common shares subject to options for the purchase of our common shares will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, and Rules 144 and 701 under the Securities Act of 1933. If these additional shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common shares could decline.

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***A significant percentage of our outstanding common shares are held by a small number of our existing shareholders, and these shareholders may have significantly greater influence on us and our corporate actions by nature of the size of their shareholdings relative to our public shareholders.***

One of our existing shareholders, Kevin Xiaofeng Ma, beneficially owns approximately 50.7% of our outstanding common shares as of April 5, 2018. Accordingly, Mr. Ma has had, and may continue to have, significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. In addition, without the consent of Mr. Ma, we could be prevented from entering into transactions that could be beneficial to us.

In addition, if the sale of ATA Online is completed, Kevin Xiaofeng Ma will own up to 51.0% of the equity interest in ATA Online that is being sold. In addition, Kevin Xiaofeng Ma also acts as the chairman of the board of directors of ATA Online. A potential conflict of interest may exist as the businesses of ATA Online may divert more time and attention of Kevin Xiaofeng Ma. In particular, if we are not able to effectively acquire new business or expand our operations subsequent to the sale of ATA Online, Kevin Xiaofeng Ma's interest in ATA Online may outweigh his interest in us and, as a result, his interest may not be best aligned with the interest of our shareholders.

***Anti-takeover provisions in our organizational documents may discourage our acquisition by a third party, which could limit your opportunity to sell your shares at a premium.***

Our amended and restated memorandum and articles of association include provisions that could limit the ability of others to acquire control of us, modify our structure or cause us to engage in change of control transactions, including, among other things, the following:

- provisions that provide for a staggered board which operates to prevent a third party from obtaining control of our board in a relatively short period of time because at least two annual shareholders' meetings, instead of one, would generally be required to effect a change in majority of the board.
- provisions that restrict the ability of our shareholders to call meetings and to propose special matters for consideration at shareholder meetings; and
- provisions that authorize our board of directors, without action by our shareholders, to issue preferred shares and to issue additional common shares, including common shares represented by ADSs.

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These provisions could have the effect of depriving you of an opportunity to sell your ADSs at a premium over prevailing market prices by discouraging third parties from seeking to acquire control of us in a tender offer or similar transactions.

***The voting rights of holders of ADSs must be exercised in accordance with the terms of the deposit agreement, the ADRs, and the procedures established by the depositary. The process of voting through the depositary may involve delays that limit the time available to you to consider proposed shareholders' actions and also may restrict your ability to subsequently revise your voting instructions.***

A holder of ADSs may exercise its voting rights with respect to the underlying common shares only in accordance with the provisions of the deposit agreement and the ADRs. We do not recognize holders of ADSs representing our common shares as our shareholders, and instead we recognize the ADS depositary as our shareholder.

When the depositary receives from us notice of any shareholders meeting, it will distribute the information in the meeting notice and any proxy solicitation materials to you. The depositary will determine the record date for distributing these materials, and only ADS holders registered with the depositary on that record date will, subject to applicable laws, be entitled to instruct the depositary to vote the underlying common shares. The depositary will also determine and inform you of the manner for you to give your voting instructions, including instructions to give discretionary proxies to a person designated by us. Upon receipt of voting instructions of a holder of ADSs, the depositary will endeavor to vote the underlying common shares in accordance with these instructions. You may not receive sufficient notice of a shareholders' meeting for you to withdraw your common shares and cast your vote with respect to any proposed resolution, as a holder of our common shares. In addition, the depositary and its agents may not be able to send materials relating to the meeting and voting instruction forms to you, or to carry out your voting instructions, in a timely manner. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. The additional time required for the depositary to receive from us and distribute to you meeting notices and materials, and for you to give voting instructions to the depositary with respect to the underlying common shares, will result in your having less time to consider meeting notices and materials than holders of common shares who receive such notices and materials directly from us and who vote their common shares directly. If you have given your voting instructions to the depositary and subsequently decide to change those instructions, you may not be able to do so in time for the depositary to vote in accordance with your revised instructions. The depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote.

***Except in limited circumstances, the depositary for our ADSs will give us a discretionary proxy to vote our common shares underlying your ADSs if you do not vote at shareholders' meetings, which could adversely affect your interests.***

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our common shares underlying your ADSs at shareholders' meetings if you do not vote, unless we notify the depositary that:

- we do not wish to receive a discretionary proxy;

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- we think there is substantial shareholder opposition to the particular question; or
- we think the subject of the particular question would have a material adverse impact on our shareholders.

The effect of this discretionary proxy is that, absent the situations described above, you cannot prevent our common shares underlying your ADSs from being voted and it may make it more difficult for shareholders to influence the management of our company. Holders of our common shares are not subject to this discretionary proxy.

***You may not receive distributions on our common shares or any value for them if such distribution is illegal or if any required government approval cannot be obtained in order to make such distribution available to you.***

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian for our ADSs receives on our common shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our common shares your ADSs represent. However, the depositary is not responsible to make a distribution available to any holders of ADSs if it decides that it is unlawful to make such distribution. For example, it would be unlawful to make a distribution to a holder of ADSs if it consisted of securities that required registration under the Securities Act but that were not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for such distribution cannot be obtained after reasonable efforts made by the depositary. We have no obligation to take any other action to permit the distribution of our ADSs, common shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our common shares or any value for them if it is unlawful or unreasonable from a regulatory perspective for us to make them available to you. These restrictions may have a material adverse effect on the value of your ADSs.

***You may be subject to limitations on transfer of your ADSs.***

Your ADSs represented by ADRs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of laws or any government or government body, or under any provision of the deposit agreement, or for any other reason.

***We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than under U.S. federal or state laws, you may have less protection of your shareholder rights than you would under U.S. federal or state laws.***

Our corporate affairs are governed by our amended and restated memorandum and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some jurisdictions, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. As a result of all of the above, public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a U.S. company.

*Certain judgments obtained against us by our shareholders may not be enforceable.*

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. Nearly all of our current operations are conducted in China. In addition, most of our directors and officers are nationals and residents of countries other than the United States. A substantial portion of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce in U.S. court judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, none of whom is resident in the United States and the substantial majority of whose assets is located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or China would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. In addition, there is uncertainty as to whether such Cayman Islands or Chinese courts would be competent to hear original actions brought in the Cayman Islands or China against us or such persons predicated upon the securities laws of the United States or any state.

*Your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings.*

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings.



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**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

Our predecessor company, American Testing Authority, Inc., a New York company, began operations in 1999, and in the same year established ATA Testing Authority (Beijing) Limited, or ATA Testing, as a wholly-owned subsidiary in China. In November 2001, our founders established ATA Testing Authority (Holdings) Limited, or ATA BVI, in the British Virgin Islands. In the following year, American Testing Authority, Inc. merged into ATA BVI and ATA BVI became our holding company.

In June 2003, we established a Chinese joint venture company, ATA Learning (Beijing) Inc., or ATA Learning, with Yinchuan Economic and Technological Development Zone Investment Holding Co. Ltd., or Yinchuan Holding. Initially, we held a 40% equity interest in ATA Learning. In May 2005, we acquired Yinchuan Holding's 60% equity interest and converted ATA Learning into a wholly-owned subsidiary of ATA BVI.

We incorporated ATA Inc. in the Cayman Islands in September 2006 as our listing vehicle. ATA Inc. became our ultimate holding company in November 2006 when it issued shares to the existing shareholders of ATA BVI in exchange for all of the outstanding shares of ATA BVI.

In February 2009, we completed the acquisition of the entire equity of Beijing JDX, and JDX Holdings Limited, or JDX BVI, which are related companies incorporated in China and the British Virgin Islands, respectively, engaged in the development and marketing of software for computer-based tests. JDX BVI was dissolved in October 2009.

In November 2013, we completed the acquisition of the entire equity interest of Xing Wei Institute (Hong Kong) Limited, or Xing Wei, a private education technology company that provides training solutions as well as online and mobile training platforms for corporations in China.

In connection with the listing of our testing service business on the New Third Board, we acquired the entire equity interest of ATA Online through ATA Learning and Zhongxiao Zhixing in May 2015, with ATA Learning owning 90% and Zhongxiao Zhixing owning 10% of ATA Online's share equity. In connection therewith, we terminated a series of contractual arrangements with ATA Online and its nominee shareholders, which provided us control over ATA Online. As a result, ATA Online became our wholly-owned subsidiary which hosted our testing services business and online education services. See Item 7.B. Major Shareholders and Related Party Transactions. Related Party Transactions. In addition, we transferred the non-testing services business from ATA Online to ATA Learning, and as a result, ATA Online transferred to ATA Learning 20% and 33% equity investments in Satech and Master Mind, respectively, in May 2015.

In May 2016, ATA Testing acquired from ATA Inc. the entire equity interest of Beijing JDX, which changed its company name to ATA Learning Data & Technology (Beijing) Limited, or ATA Data, in August 2016. In June 2017, MOOC-CN Investment and an individual shareholder acquired a total of 20% equity interest in ATA Data. Such investment aimed to help us expand into the K-12 education assessment market, with particular focus on the development of K-12 education assessment tools and contents. ATA Data changed its company name to Muhua Shangce Learning Data & Technology (Beijing) Limited, or Muhua Shangce, in connection with such investment. After the investment,

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ATA Testing, MOOC-CN Investment and the individual shareholder each holds 56%, 18% and 2% equity interests in Muhua Shangce respectively, with the remaining 24% being reserved as an employee stock option pool for future incentive issuance to Muhua Shangce's employees.

In September 2016, we completed the acquisition of 60% equity interest in Beijing Puhua Huitong Education Technology Co., Limited., or Puhua Technology, by injection of RMB 2.0 million in cash. Puhua Technology is a continuing education service provider focused on delivery of both degree and non-degree granting continuing education programs for adults. In December 2017, we transferred our 60% equity interest in Puhua Technology to a third party with a total consideration of RMB 2.0 million (\$0.3 million). As a result, we no longer hold any equity interests of Puhua Technology.

In December 2017, we acquired 65% equity interest in Beijing Qihuang Huizhi Technology Co., Ltd., or Qihuang Huizhi, with a total consideration of RMB 0.65 million (\$0.1 million). Qihuang Huizhi is primarily engaged in providing online training services to the Internet Access Service Association of China.

On February 6, 2018, ATA entered into a share purchase agreement, or the Share Purchase Agreement, with a group of investors, including two entities affiliated with funds managed by CDH Investments, a major Chinese alternative asset management firm based in Beijing, or the CDH Entities; New Beauty Holdings Limited, a company controlled by Kevin Xiaofeng Ma; and four holding companies controlled by certain management members of ATA Online, or the Management Entities, together with the CDH Entities and New Beauty Holdings Limited, collectively, the Buyer Group, with respect to the sale of ATA Online. Under the terms of the Share Purchase Agreement, the Buyer Group agreed to acquire all of the outstanding equity interests of ATA Online held directly or indirectly by us for a total consideration of US\$200.0 million in cash. Kevin Xiaofeng Ma has paid a cash deposit in the amount of US\$20.0 million to ATA as collateral and security for the payment obligations of the Buyer Group under the Share Purchase Agreement.

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The closing of this transaction is expected to take place in three stages subject to the satisfaction of various conditions precedent under the Share Purchase Agreement. At the first closing of this transaction, or the First Closing, 100% of the equity interest of Zhongxiao Zhixing (holding 10% of the equity interest of ATA Online) which is wholly-owned by Xing Wei will be transferred to one of the CDH Entities for a consideration of US\$20.0 million, and 7.5% of the equity interest of ATA Online will be transferred to the other one of the CDH Entities for a consideration of US\$15.0 million. At the second closing of this transaction, or the Second Closing, 31.5% of the equity interest of ATA Online will be transferred to the Management Entities for a consideration of US\$63.0 million. At the third closing of this transaction, or the Third Closing, 100% of the equity interest of ATA Learning will be transferred to New Beauty Holdings for a consideration of US\$102.0 million. Zhongxiao and ATA Learning will be sold on a cash-free, debt-free basis while ATA Online will be sold on an as-is, where-is basis in the transaction.

On April 4, 2018, the First Closing was completed, and the Second Closing and/or the Third Closing still remain uncertain as of the date of this transition report. The Second Closing is subject to the satisfaction of various conditions precedent in the Share Purchase Agreement, including the consummation of the First Closing and the pledge of the CDH Entities' then equity interest in ATA Online to the related debt financing sources, and is currently anticipated to take place within two months from the date of the First Closing. The Third Closing is also subject to the satisfaction of various conditions precedent in the Share Purchase Agreement, including the distribution of certain portion of the paid consideration to ATA BVI or its designee as dividend prior to the Third Closing after clearing related governmental approvals from relevant PRC tax authorities and foreign exchange banks, and is currently anticipated to take place within two to three months from the date of the Second Closing. Therefore, we expect this transaction to be completed in the third quarter of 2018.

There is no assurance that all conditions precedent to the Second Closing and/or the Third Closing will be satisfied or waived, and there is also no assurance that the Third Closing will take place even if and after the First and/or the Second Closing have occurred.

If this transaction is completed, we will no longer conduct our testing development and delivery business currently operated by ATA Online. Subsequent to the closing of this transaction, the remaining portions of our businesses primarily include the following: (i) development of K-12 education assessment tools and contents, (ii) our collaboration with Nanjing University and the Education and Research Institute of Tsinghua University on several research projects, and (iii) our strategic investments in EEO, ApplySquare, GlobalWisdom, Brilent, Satech and Master Mind. See Form 6-K filed by us on February 6, 2018 for details and potential impacts of our sale of ATA Online.

The following diagram illustrates our current corporate structure including our principal subsidiaries and consolidated variable interest entity. Except for ATA BVI and Xing Wei, which are incorporated in the British Virgin Islands and Hong Kong Special Administrative Region of the PRC, respectively, all of our subsidiaries and variable interest entity are incorporated in Mainland China.

Our principal executive offices are located at 1/F East Gate, Building No. 2, Jian Wai Soho, No. 39 Dong San Huan Zhong Road, Chao Yang District, Beijing, China, and our telephone number is (86-10) 6518-1122. Our website address is <http://www.atai.net.cn>. The information on our website does not form a part of this transition report. On February 1, 2008, we completed our initial public offering, which involved the sale by us of 4,874,012 of our ADSs, representing 9,748,024 of our common shares. Our agent for service of process in the United States is CT Corporation System, located at 111 Eight Avenue, New York, New York 10011.

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**Our Consolidated Variable Interest Entity**

To preserve flexibility for operating, investing in or holding business that is restricted for foreign investment, ATA Intelligent Learning was established in March, 2018. We obtained control over ATA Intelligent Learning in March 2018 by entering into a series of contractual arrangements among ATA Testing, ATA Intelligent Learning and the shareholders of ATA Intelligent Learning, which we refer to as the ATA Intelligent Learning Agreements. As a result of these contractual arrangements, we became the primary beneficiary of ATA Intelligent Learning in March 2018. We treat ATA Intelligent Learning as our variable interest entity and have consolidated its financial results in our consolidated financial statements in accordance with U.S. GAAP. The establishment of ATA Intelligent Learning will have no impact on our consolidated financial statements for the nine-month period ended December 31, 2017 and for the years ended March 31, 2016 and 2017.

ATA Intelligent Learning Agreements allow us to:

- exercise effective control over ATA Intelligent Learning;
- receive substantially all of the economic benefits of ATA Intelligent Learning; and
- have an exclusive option to purchase all or part of the equity interests in ATA Intelligent Learning when and to the extent permitted by PRC law.

In the opinion of Jincheng Tongda & Neal Law Firm, our PRC legal counsel:

- the ownership structures of ATA Intelligent Learning and our wholly owned subsidiaries in PRC are in compliance with existing published PRC laws and regulations;
- our contractual arrangements among our wholly owned subsidiaries in PRC and ATA Intelligent Learning and its shareholders, are valid and binding, will not result in any material violation of published PRC laws or regulations currently in effect, and are enforceable in accordance with their terms and conditions; and
- the business operations of our company, all of our Chinese subsidiaries and ATA Online, as described in this transition report, are in compliance with existing published Chinese laws and regulations in all material aspects.

However, there are substantial uncertainties regarding the interpretation and application of current or future 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 PRC do not comply with PRC government restrictions on foreign investment in our industry, we could be subject to severe penalties.

#### **Contractual Arrangements with ATA Intelligent Learning**

The following is a summary of the currently effective ATA Intelligent Learning Agreements.

##### ***Agreements that Provide Us with Effective Control over ATA Intelligent Learning***

***Equity Interest Pledge Agreements.*** On March 15, 2018, ATA Testing and ATA Intelligent Learning and each of the shareholders of ATA Intelligent Learning entered into an equity interest pledge agreement. Pursuant to the equity interest pledge agreements, each of the shareholders of ATA Intelligent Learning has pledged all of his equity interest in ATA Intelligent Learning to guarantee his and ATA Intelligent Learning's performance of his obligations under, where applicable, the exclusive technical consulting and services agreement and the call option and cooperation agreement. If ATA Intelligent Learning or the shareholders of ATA Intelligent Learning breach their contractual obligations under these agreements, ATA Testing, as pledgee, will have the right to dispose the pledged equity interests. The shareholders of ATA Intelligent Learning agree that, during the term of the equity interest pledge agreements, they will not dispose the pledged equity interests or create or allow any encumbrance on the pledged equity interests, and they also agree that ATA Testing's rights relating to the equity pledge should not be suspended or hampered by the shareholders, their successors or their designates. During the term of the equity interest pledge agreement, ATA Testing has the right to receive all of the dividends and profits distributed on the pledged equity. The term of the equity interest pledge agreement shall commence on the date on March 15, 2018 and shall expire on the earlier of (a) the date on which all outstanding secured obligations are paid in full or otherwise satisfied (as applicable); (b) ATA Testing enforces the equity interest pledge agreement pursuant to the terms and conditions, to satisfy its rights under the secured obligations and pledged collateral in full, or (c) the shareholders of ATA Intelligent Learning complete their transfer of the equity interest to another party (individual or legal entity) pursuant to the Call Option and Cooperation Agreement and no longer holds any equity interest in ATA Intelligent Learning.

***Powers of Attorney.*** On March 15, 2018, each of the shareholders of ATA Intelligent Learning granted an irrevocable power of attorney. Pursuant to the irrevocable powers of attorney, each of the shareholders of ATA Intelligent Learning appointed ATA Testing or any eligible person designated by ATA Testing as his attorney-in-fact to exercise all voting rights and other shareholder rights of ATA Intelligent Learning, including but not limited to appointing or electing on their directors and executive officers. The person designated by ATA Testing is entitled to sign the transfer documents necessary for the fulfillment of the exclusive technical consulting and services agreement and the call option and cooperation agreement, and to join the liquidation group and participate in the liquidation of ATA Intelligent Learning. The term of the powers of attorney shall be consistent with the term of the equity interest pledge agreements and call option and cooperation agreement and shall be extended along with the equity interest pledge agreements and call option and cooperation agreement.



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*Agreements that Allow Us to Receive Economic Benefits from ATA Intelligent Learning*

**Exclusive Technical Consulting and Services Agreement.** On March 15, 2018, ATA Testing and ATA Intelligent Learning entered into an exclusive technical consulting and services agreement. Pursuant to the exclusive technical consulting and services agreement, ATA Testing has the sole and exclusive right to provide specified technology consulting and services to ATA Intelligent Learning. The Parties agree that the intellectual property rights created by ATA Testing in the course of performing this agreement, including without limitation any copyrights, trademarks or logos registered or not, patents and proprietary technology, shall belong to ATA Testing. The consulting fee payable by ATA Intelligent Learning to ATA Testing shall be confirmed by ATA Testing in writing and be calculated based on the actual time spent by ATA Testing in providing services to ATA Intelligent Learning on a quarterly basis. The consulting fee shall be settled on a quarterly basis, and at the end of each year, ATA Testing shall confirm the total consulting and other fees incurred for the year in writing and ATA Intelligent Learning shall settle any outstanding on a timely basis. This agreement shall continue for a period of 30 years from March 15, 2018 and shall be automatically extended for another 10 years unless ATA Testing gives its written notice terminating this agreement 3 months before the expiration of this agreement.

*Agreements that Provide Us with the Option to Purchase the Equity Interest in ATA Intelligent Learning*

**Call Option and Cooperation Agreement.** On March 15, 2018, ATA Testing, ATA Intelligent Learning and the shareholders of ATA Intelligent Learning entered into a call option and cooperation agreement. Pursuant to the call option and cooperation agreement, when permitted by applicable laws, ATA Testing (or any eligible party designated by ATA Testing) shall have the right to acquire, at any time, all of ATA Intelligent Learning's assets or its share equity owned by the shareholders of ATA Intelligent Learning, at a price equal to the sum of the principles of the loans (RMB 10.0 million) from ATA Testing to the shareholders of ATA Intelligent Learning agreements. If ATA Testing elects to purchase a portion of ATA Intelligent Learning's share equity or assets, the exercise price for such purpose shall be adjusted accordingly based on the percentage of such share equity or assets to be purchased over the total share equity or assets. Without the prior written consent of ATA Testing, ATA Intelligent Learning may not sell or otherwise dispose of its assets or beneficial interest, create or allow any encumbrance on its assets or other beneficial interests, enter into any material contracts (except those contracts entered into in the ordinary course of business), or distribute dividends to the shareholders. The call option and cooperation agreement shall be effective upon the execution date and shall remain effective thereafter.

**Loan Agreements.** On March 15, 2018, ATA Testing and each of the shareholders of ATA Intelligent Learning entered into a loan agreement. Pursuant to the loan agreements, ATA Testing made loans in an aggregate amount of RMB 10.0 million to the shareholders of ATA Intelligent Learning solely for the capitalization of ATA Intelligent Learning. The shareholders can only repay the loans by transferring all their equity interest in ATA Intelligent Learning to ATA Testing or its designated persons. In the event that shareholders transfer their equity interests to ATA Testing or its designated person with a price equivalent to or less than the amount of the principal, the loans will be interest free. If the price is higher than the amount of the principal, the excess amount will be paid to ATA Testing as loan interest.



The maturity date of the loans is on the tenth anniversary of the execution date of the loan agreement. The term of the loans can be extended under written consent of ATA Testing and ATA Intelligent Learning.

## **B. Business Overview**

### **Overview**

We believe that we are the leading provider of computer-based testing services in China, based on test delivery capacity and geographic coverage. We offer comprehensive services for the creation and delivery of computer-based tests utilizing our nation-wide test delivery platform, proprietary testing technologies and extensive experience providing testing services in China. Our computer-based testing services are used for professional licensure and certification tests in various industries, including IT services, banking, teaching and insurance. Our computer-based testing services clients principally include professional associations, such as CICPA and AMAC, Chinese governmental agencies, including the PRC Ministry of Human Resources and Social Security, and large state-owned enterprises, such as Sinopec and China Mobile.

Our test center network, which we believe is the largest test center network of any commercial testing service provider in China, comprised 3,344 authorized test centers located throughout China as of December 31, 2017. Combined with our test delivery technologies, this network allows our clients to administer large-scale nationwide computer-based and paper-based tests in a consistent, secure and cost-effective manner. From our inception in 1999 through December 31, 2017, we have delivered approximately 112.7 million tests, including approximately 12.0 million free tests for business development purposes. Over the course of two days on October 14 and October 15, 2017, we delivered tests for the sixth consecutive year to approximately 2.9 million tests for the CPA, demonstrating our ability to administer computer-based tests across the country on a massive scale through our nationwide test delivery platform. During the nine months ended December 31, 2017, approximately 12.4 million tests were delivered using our computer-based testing technologies and services.

Our proprietary computer-based testing technologies include our E-testing platform for delivering computer-based tests, our patented mobile testing platform called the Mobile Testing Service, or MTS, our cloud-based online testing platform called EzTest, our online recruitment management platform called EzInterview, and our content creation and management technologies. Our E-testing platform is composed of a set of self-developed tools and applications for facilitating the computer-based testing process, and is capable of handling large-scale tests and quickly and securely transmitting, processing and storing large amounts of data. Our self-developed MTS, launched in 2013 and EzTest, launched in 2015, are applications compatible for Windows, iOS and Android systems that function as exam testing systems which were developed on the basis of cloud technology. Test takers can take tests through MTS and EzTest on their mobile devices, and test administrators can host, manage and administer the tests through MTS anywhere. Both MTS and EzTest platforms enhance the mobility, security, efficiency and cost-effectiveness of test administration by utilizing state-of-the-art cloud technology to transmit test data through portable mobile devices. Our computer-based testing technologies, including E-testing platform, MTS and EzTest, provide diversified solutions to test sponsors and clients in various circumstances. Our self-developed online recruitment management platform, EzInterview, is specifically designed to help recruiters facilitate their talent assessment and hiring process. Our self-developed test content creation and management technologies include our Dynamic Simulation Technology, an advanced performance-based testing technology which leading IT certification sponsors have adopted for their computer-simulated tests delivered around the world. We have also developed content creation technologies for the conversion of paper-based tests into computer-based formats to make test administration easier and cheaper.

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We have received a number of awards and commendations in recognition of the quality of our services and our achievements in the development of computer-based testing technologies. For example, we recently received the 2017 HR Service Innovation Award from HRoot.com and Human Resources Management Magazine in December 2017. We were also recognized as the Best Brand for Human Resources Services (2016-2017) in the Greater China region by the same organizations in March 2017. In October 2017, we won the 2017 Asian Education Contribution Award at the 2017 Asian Education Forum. In July 2017, we received the Hiring and Recruitment Vendor Value Award from the Human Resource Excellence Center, China's largest and most influential membership-based organization for human resources professionals.

Leveraging our testing platform, technologies and expertise, we administer an ever expanding portfolio of test titles in China and have expanded our service offerings beyond our core computer-based testing services to include other test-focused services. ATA launched online training services in 2006 to help candidates across China attain continuing educational requirements after their professional licensure and certification tests, which are delivered through our E-learning platform, which is an online training platform providing technology support and services to individual end-users for online distance education. During the nine months ended December 31, 2017, we expanded our online education services by offering an online continued education training platform for fund practitioners who have already acquired the AMAC qualifications. We plan to continue to expand our service offerings to include online education technologies, career-oriented training and soft skills development for test takers.

On February 6, 2018, ATA entered into the Share Purchase Agreement with the Buyer Group with respect to the sale of ATA Online. If this transaction is completed, we will no longer conduct our testing development and delivery business currently operated by ATA Online. Subsequent to the closing of this transaction, the remaining portions of our businesses primarily include the following: (i) development of K-12 education assessment tools and contents, (ii) our collaboration with Nanjing University and the Education and Research Institute of Tsinghua University on several research projects, and (iii) our strategic investments in EEO, ApplySquare, GlobalWisdom, Brilent, Satech and Master Mind. Subsequent to the closing of this transaction, we intend to leverage our existing competency-focused assessment and education service capabilities and the strategic opportunities that we have been working on to transform our company into a leading international education service provider. We plan to focus on three areas: (i) international education services for providing services to talents internationally; (ii) vocational training services for candidates using international resources and approaches; and (iii) evaluation services for assessing and evaluating candidates through content and methodologies. We also plan to use the proceeds from this transaction to fund one or more of the following matters: (i) seeking and acquiring potential merger and acquisition targets in the education industry; (ii) developing and expanding our retained businesses in assessment content and instrument development in the K-12 and higher education industries; (iii) strengthening our collaboration with Nanjing University and Tsinghua University in conducting ongoing and additional research projects; and/or (iv) distributing dividends to our shareholders.

On April 4, 2018, the First Closing was completed, and the Second Closing and/or the Third Closing still remain uncertain as of the date of this transition report. If this transaction is not consummated, we will continue to conduct our testing development and delivery business currently operated by ATA Online, and may consider and evaluate other strategic opportunities. However, there can be no assurances that our continued operation of ATA Online-related businesses or any alternative strategic opportunities will result in the same or greater results of operation or values to our shareholders as with the sale of ATA Online.

Our total net revenues increased from RMB 417.1 million in the fiscal year ended March 31, 2016 to RMB 472.4 million in the fiscal year ended March 31, 2017, and from RMB 435.4 million in the nine months ended December 31, 2016 to RMB 490.1 million (\$75.3 million) in the nine months ended December 31, 2017. We had net income of RMB 26.1 million in the fiscal year ended March 31, 2016 and net loss of RMB 10.0 million in the fiscal year ended March 31, 2017. We had net income of RMB 43.9 million in the nine months ended December 31, 2016 and net income of RMB 27.8 million (\$4.3

million) in the nine months ended December 31, 2017.

#### **Our Test Delivery Platform and Technologies**

We offer our clients a comprehensive platform and suite of technologies for the development and delivery of computer-based tests. Our E-testing platform integrates all aspects of the test delivery process for computer-based tests, from test form compilation to test scoring and results analysis. Our test delivery services are further enhanced by our nation-wide network of test centers, which allows us to deliver both computer-based and paper-based tests on a large scale in a consistent, secure and cost-effective manner. We also offer our clients advanced technologies and software applications for the creation of sophisticated computer-based tests, including advanced performance-based tests. While we offer a choice between paper-based testing and computer-based testing for our institutional clients, currently all of our national public exams are delivered using computer-based testing, and we expect the trend towards computer-based exams to continue. By combining our advanced test content creation technologies with our test delivery platform and network of test centers, we can offer our clients a comprehensive and integrated solution to enhance the effectiveness of the entire testing process, as shown in the following diagram.

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***Our E-Testing Platform***

Our E-testing platform incorporates a number of technologies and protocols designed to ensure the stable, cost-effective, secure, accurate, fast and easy-to-manage delivery of computer-based tests on a large scale. It is flexible and easily customized for many types of test content and the specific requirements of the test sponsor. Tests delivered through our E-testing platform may be conducted at our ATA authorized test centers or at other locations at the test sponsor's discretion. Our E-testing platform is composed of a set of tools and applications for facilitating the computer-based testing process, including a network sub-system for managing and transferring test content, test taker information and test results data in a secure and efficient manner. Our E-testing platform software applications are pre-installed on designated personal computers at the testing site prior to the test date and are designed to handle large-scale testing environments and are capable of transmitting, receiving, processing and storing large amounts of information in a short time span. We currently have the capability to deliver more than 1,200,000 tests per day using our 150 servers, which can be increased to enlarge capacity. We periodically upgrade our equipment and software applications to handle increasing testing volume as required.

***Our Mobile Testing Service***

Our proprietary mobile test administration platform MTS significantly enhances the mobility, security, efficiency and cost-effectiveness of test administration. MTS obviates the need to pre-install software on designated personal computers at the testing site prior to the test date and allows us to monitor the status and process of an entire exam through a safe, non-public LAN, thus reducing the cost of test administration and improving test administration efficiency. Through MTS, test packets can be downloaded to personal electronic devices immediately before the exam, and candidate responses can be synced with the test server during the exam. MTS consists of three main components: (i) a small MTS Box that is placed in the testing center and operated by onsite proctors to wirelessly connect between the MTS Cloud Server and the test takers' own electronic device, such as a personal computer or tablet; (ii) an MTS Cloud Server that processes the exchange of data, such as the upload or download of test data, between the MTS Box and our servers; and (iii) MTS Test Client, an app that supports multiple operating systems and enables secure data transmission between the MTS Box and test takers' personal electronic devices during live exams. MTS was deployed for use in the administration of the Cambridge English Junior Young Learner Exam ( CBYLE ) in 22 countries or regions.

***Our EzTest Online Testing Platform***

EzTest is an online self-service testing platform we launched in 2015. It provides comprehensive testing management and delivery functions required by most test delivery organizations and individuals, including item banking, test form composition, test delivery, online proctoring and test result analysis. Using its unique cloud computing technology, EzTest creates customized test contents and scenarios based on our users' specific needs and requirements, and allows

users to easily manage the test conditions and results. Through its real-time monitoring systems and browser lock-down technologies, EzTest also creates a fair and secure testing environment for test takers. EzTest functions on all computer system browsers and most mobile system browsers without the need to install additional software or plug-ins. This enables its users to generate their own test content and deliver tests at any time, any place and on any device. EzTest has been widely used by a large number of our corporate clients as an important testing and talent assessment tool to create and deliver recruitment tests as part of their own hiring and selection process. The key clients using our EzTest online testing platform include some of the leading multinational corporations and PRC blue chip companies, such as China UnionPay, China National Chemical Corporation, China Minsheng Bank and China Pacific Insurance.

#### ***Our EzInterview Online Recruitment Management Platform***

In 2017, we launched EzInterview, a self-developed online interview management platform, designed to strengthen our capability to support the talent assessment and hiring process. EzInterview currently consists of an interview management system and a candidate evaluation system. The interview management system facilitates bulk interview scheduling and keeps track of all data generated from the recruiting process, including job openings, scheduled interviews and candidate databases. The candidate evaluation system provides interviewers easy access to interview schedules and candidate databases. Interviewers can score interviews and provide evaluations in real-time. After each interviewer provides his/her independent evaluations of a candidate, scoring is revealed to the recruiter whereby the highest-scoring candidates can be effortlessly identified. In addition, similar to EzTest, EzInterview can also be accessed on both computer and multiple mobile devices, which affords users great flexibility to access candidate records and make interview arrangements. The innovative features available on EzInterview allow our users to significantly increase their recruiting productivity, leading to more efficient and qualified hires. As part of our ongoing efforts to improve our products and drive user engagement, we are in the process of upgrading the EzInterview platform and launching new features tailored to job seekers. For example, we plan to complete upgrading the EzInterview platform by end of 2018, to allow our users to conduct interviews remotely through webcams instead of through face-to-face interaction, affording both our users and interviewers great flexibility to make interview arrangements and largely reducing the cost of time and money of interviewers, compared to face-to-face interviews.

#### **Our ATA Authorized Test Center Network**

To help our clients reach a broad base of test takers, we have established a large network of authorized test centers across Mainland China and in Macau, which we refer to as our ATA authorized test centers. As of December 31, 2017, we had contractual relationships with 3,344 ATA authorized test centers. Our network of ATA authorized test centers provides the means for delivering and administering tests nationally both simultaneously and on a regularly scheduled basis under consistent and secure testing conditions.

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The following map shows the geographic distribution of our ATA authorized test centers as of December 31, 2017:

**Extensive Network of Test Centers**

We do not own any of our ATA authorized test centers but instead enter into a standard form of contract with qualified independent operators to act as ATA authorized test centers. Most of our ATA authorized test centers are owned by Chinese vocational schools, which we believe enhances the quality and reliability of the centers. Under our contracts with the test centers, we license our E-testing platform technology and provide training and support during the contract period. We require each test center to provide sufficient facilities to properly administer computer-based tests and to follow prescribed guidelines for facility maintenance and test administration. We also conduct regular reviews of their facilities and operations. We assist our clients in liaising and coordinating testing arrangements with our ATA authorized test centers.

Our ATA authorized test centers are divided into general test centers, which offer a wide range of tests and have the right to use our ATA brand name and logo, and special test centers with which we enter into contracts to carry out specific tests for specific test sponsor clients. We receive license fees from our general test center operators in the form of either a single initial license fee or a combination of initial license fee and continuing annual license fees. Under either fee arrangement, we and our licensees can extend the licensing agreement indefinitely.

### **Our Test Content Creation and Management Technologies**

We offer our clients advanced technologies and software applications for the creation of sophisticated computer-based tests, including advanced performance-based tests.

Our Dynamic Simulation Technology is a performance-based testing technology that creates, illustrates, runs and scores tests in a virtual computer environment that accurately and realistically simulates the operating environment and functions of the software applications being tested without requiring the installation or use of those applications. Our Dynamic Simulation Technology is designed to provide maximum interactivity and allow the test taker to perform tasks in the simulated environment and operate through multi-level testing paths. The current version of Dynamic Simulation Technology, version 5.0 is an interpreter-based simulation technology, which represents our fifth generation of simulation testing technologies.

Interpreter-based simulation offers high flexibility, adaptability to most applications, low disk space usage and short lead times for developing new tests once the system is in place. Based on feedback from our clients, we believe that we are the only company in the world that has developed and marketed interpreter-based simulation technology for testing and educational use. For this reason, we believe that our Dynamic Simulation Technology is the world's leading technology for the creation and illustration of performance-based tests through simulation. Currently content in over eight languages has been delivered through this technology around the world.

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We also have two non-simulation testing technologies: Real Environment Technology and ATA Markup Language. Our Real Environment Technology is used for creating and running performance-based tests and learning exercises that track and score within the actual operating system or software application being tested. Our ATA Markup Language is used for the creation and illustration of knowledge-based test items that require the test taker to respond to specific questions in a traditional question-and-answer format. While less sophisticated than our performance-based testing technologies, ATA Markup Language remains a key technology for our large base of clients who contract with us for the conversion of paper-based tests to computer-based tests. In addition, many performance-based tests also include traditional multiple-choice questions created and run by our ATA Markup Language and related software applications.

We have developed test item authoring tool applications for our Dynamic Simulation Technology, Real Environment Technology and ATA Markup Language. We have also developed other authoring tools, such as user interface cloning and translation software, for increasing the efficiency of the test content creation and revision process. To meet individual client needs, we have developed test engine applications for integrating tests using our testing technologies on multiple testing platforms.

In addition to incorporating our technologies into our test service offerings, we also directly generate revenue from our Dynamic Simulation Technology and related simulation authoring tools by licensing them to international IT certification sponsors, such as CompTIA, for the creation of test items and test preparation course exercise items delivered to students and test takers all over the world.

**Our Service Offerings**

***Testing Development and Delivery Services***

*Computer-based test authoring, delivery and result analysis services.* Our test delivery platform and technologies allow us to offer our clients a comprehensive set of services for the authoring, test delivery and result analysis of computer-based tests as well as administrative services such as test registration, scheduling, fee collection and certification fulfillment. We assist our clients with creating and delivering a wide range of computer-based tests, including governmental agencies with licensure tests required for job positions within various governmental agencies, industry associations with tests that test the competence of individuals who practice in certain industries that require technical expertise and which carry professional titles, as well as Chinese universities with admission tests that test the knowledge and skills of high school graduates who apply to such universities, such as: the National Unified Certified Public Accountants Exam, sponsored and regulated by CICPA;

- the Fund Practitioners Certification Exam, sponsored and regulated by the AMAC under CSRC's supervision;
- the Certification of China Banking Professionals Exam, sponsored and regulated by CBI under the supervision of the China Banking Regulatory Commission, or CBRC;



- the National Tax Adviser Occupational Qualification Exam, sponsored and regulated by China Certified Tax Agents Association, or CCTAA;
- the Vocational Qualification Test for National Land Registration Agents, sponsored and regulated by China Real Estate Valuers and Agents Association (CREVA) under the supervision of the Ministry of Land and Resources and the PRC Ministry of Human Resources and Social Security, or MOHRSS;
- the National Tour Guide Qualification Exam, sponsored and regulated by the China National Tourism Administration;
- the Futures Professional Qualification Exam, sponsored and regulated by the China Futures Association;
- the Accounting Professional and Technical Qualification Exam, sponsored by the finance bureaus in multiple provinces and cities, including Beijing, Shanghai, Fujian and Nanchang;
- the National Real Estate Assistant Qualification Exam; sponsored by the China Institute of Real Estate Appraisers and Agents, under the supervision of the Ministry of Housing and Urban-Rural Development of the People's Republic of China, or MOHURD and MOHRSS;
- the National Tax Law Enforcement Officer Qualification Exam, sponsored and regulated by the SAT;
- self-developed admission tests administered by various reputable Chinese universities;
- quiz competitions on state and local taxation, sponsored by the State Administration of Taxation and the state and local tax bureaus in more than 25 provinces and cities across China; and
- corporate assessment services for large scale/day-to-day recruitment exercise and internal for talent management assessment purposes.

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Utilizing our comprehensive and advanced item authoring system and rendering technologies, we assist our clients in developing sophisticated computer-based tests, including performance-based items. Creation of effective and reliable computer-based tests involves a multi-step process:

- *Test design.* Our content development consultants work together with the client to determine the test scope, target audience, test objectives and required competency level to formulate an overall test blueprint. We then arrange for the client to work with our internal subject matter experts, or engage outside subject matter experts with specific experience in the subject area, to work with us on the scope of knowledge covered by the test and to design and author specific testing items for required knowledge points.
- *Test item authoring.* Based on the test blueprint and using our advanced test engine technologies, we work together with subject matter experts to create individual test items designed to determine a test taker's proficiency and effectiveness in solving both practical and conceptual problems. The test items are designed to support immediate test scoring and results processing. Test items generally fall into two types: standardized items and constructed responses items. Once all of the test items have been created, our content development consultants and subject matter experts commence a review process to ensure the validity of each test item, clarity of language and overall quality. All of the test items are then deposited in a master test item pool.
- *Test form and item bank construction.* Once the test items are ready, we tag attributes to test items for building up test item banks, which enable test forms to be formulated based on the blueprint of a test. Test forms with the same level of difficulty are generated from the test item bank to ensure fairness across test forms.
- *Final user acceptance test.* Before publication, the test undergoes a final user acceptance test during which selected test takers take the test and provide feedback. Based on the test results from the beta test, we evaluate the efficacy of the test, eliminate problematic test items and otherwise fine tune the test items to ensure quality.
- *Continuous upgrades through result analysis and user feedback.* As we deliver tests in real-world environments, we monitor and analyze the quality and adequacy of the test content and update test items as we develop or adopt new technologies and techniques. We also communicate with test users and collect feedback from the test sponsors and test takers to ensure that test items are up-to-date.

Our services are modularized, and depending on the client's needs, we perform some or all of the above services to individual client. For example, in some cases, clients may have already created all of the test items and may only require us to build the test using our E-testing platform. Computer-based tests can also be scheduled on an on-demand basis, or as regularly scheduled tests, which are prescheduled and taken by test takers at a designated time.

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Our computer-based testing delivery services generally include the following, subject to the test sponsor's specific needs:

- installing our E-testing platform on the computer system of our authorized test centers to enable centralized administrative tasks to be implemented for the test or, in the case of repeated clients, updating the platform as necessary, for new tests;
- providing technical support throughout the test administration process;
- updating test session information and performing test rehearsals and final test environment inspection;
- administering the test sessions and collecting responses from candidates; and
- processing test scores, summarizing and analyzing test scores and generating results.

We also offer a number of logistical support services relating to test administration that we incorporate into the testing fee for our test delivery platform based on client's customized needs. These support services include:

- managing test taker registration and scheduling;
- managing test fee collection;
- preparing and conducting pre-test training of personnel at each ATA authorized test center;
- providing test data management, such as test score publishing and inquiry; and
- printing and delivering certificates for test takers who have satisfied the test sponsor certification requirements.

We usually offer test content creation services and test delivery services as an integrated solution and collect a fixed fee per test per test taker. The fee we charge depends on the length and complexity of the test, the amount of effort it takes to transform the testing content into computer-based test format and other factors in the test development and administration process, such as security levels and the amount of logistical services provided.

*Administration of TOEIC exams in China.* We have been a long-time distributor and test administrator of TOEIC exams in China, which are products of ETS, the world's largest educational research and assessment organization. Originally designed in 1979 by ETS for governmental agencies and corporations, TOEIC measures the ability of non-native speakers of English to communicate in English in the workplace. According to ETS, the TOEIC exam is being used by over 14,000 companies, government agencies and English language learning programs in 150 countries, with around eight million TOEIC exams administered around the world in 2017. TOEIC has become the top professional English language assessment tool in the world, according to ETS.

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TOEIC tests include large-scale, fixed-date testing open to the general public for a set fee as well as on-demand testing given for specific enterprises or organizations. We administered our first TOEIC exam in three cities in China in March 2009. We collect a per-test taker fee for each test delivered. TOEIC exams in China used to be only available in a paper-based format, but since August 2011, we also began delivering computer-based TOEIC exams through our delivery system at our authorized test centers.

On February 28, 2014, our exclusive TOEIC distributor contract with ETS ended and we no longer exclusively administer TOEIC exams in China due to ETS' decision to change its distribution model; however, we are still a distributor and administrator of TOEIC exams in China and signed a non-exclusive distributor contract with ETS on June 23, 2014 to continue delivery of certain TOEIC exams to our existing institutional clients from April 1, 2014 through December 31, 2016. On January 20, 2017, we renewed such non-exclusive distributor contract with ETS to extend its term for another three years from January 1, 2017 to December 31, 2019.

*Distribution and administration of Cambridge tests.* We entered into an exclusive ten-year Master Distribution and Services Agreement in March 2013 with The Chancellor, Masters and Scholars of the University of Cambridge ( Cambridge ), an affiliate of the University of Cambridge which has the largest dedicated research department of any UK-based language assessment organization. Under this agreement, we will host, support, market and deliver platform services to certain Cambridge tests and collect a per-test taker fee for each test delivered. As of December 31, 2017, we have enabled the delivery of 12,789 Cambridge English Junior Exam in 22 countries or regions through our MTS. On March 20, 2018, due to its change in global product portfolio and strategy, Cambridge decided to withdraw CBYLE from the market and our Master Distribution and Services Agreement with Cambridge was discontinued accordingly.

*Administration and delivery of ACT exams in Asia.* In September 2017, we successfully provided test delivery services for the American College Test ( ACT ) in Jeju Island, Korea and the Global Assessment Certificate schools in Mainland China. ACT is a paper-based college entrance exam owned by ACT, Inc. We are currently in the process of assisting ACT, Inc. with the conversion of the ACT exams from paper-based to computer-based testing, which we expect to complete and launch in second half of 2018. We also signed an exclusive five-year agreement with ACT, Inc. on April 21, 2017 to provide a variety of ACT test preparation measures to students in China.

*Administration and delivery of the Vocational Qualification Test for National Land Registration Agents.* In June 2016, we provided a range of testing services, including test center monitoring and test administration and delivery, for the Vocational Qualification Test for National Land Registration Agents, which is a paper-based test sponsored and regulated by China Real Estate Valuers and Agents Association (CREVA) under the supervision of the Ministry of Land and Resources and the PRC Ministry of Human Resources and Social Security, or MOHRSS. This was the first time that we delivered and supported the Vocational Qualification Test for National Land Registration Agents, in which a total of 17,075 test takers participated over the course of two days on June 18 and June 19, 2016. We continued to deliver this test in 2017, in which a total of 9,622 test takers participated.

***HR Select Employee Assessment Solution***

In March 2009, we launched our self-developed HR Select employee assessment solution. HR Select is a service that enables corporate human resources departments to test, benchmark and analyze job applicants based on general, industry-specific and job-specific profiles and individual skill-sets, making it an invaluable tool for campus recruitment, lateral hiring and internal promotions. Employers using HR Select can choose to adopt any of a multitude of evaluation parameters, including:

- General work skills, including, among others, foreign language skills, software application skills, management skills, reading comprehension ability and data processing skills;
- Position-specific skills, including customized tests for IT, finance, management, customer service, administrative and sales positions; and
- Compatibility traits, which look at non-skills elements that indicate a candidate's likelihood of success, such as personal values, self-image, motivation and other personality traits.

HR Select leverages our computer-based testing technologies and expertise, as well as our EzInterview recruitment management platform to allow employers to evaluate candidates on each of these properties and to analyze and categorize the results to make effective recruitment decisions. Candidates are tested using our E-testing or EzInterview platforms at our authorized test centers or online at a place of their choice. We have also leveraged our particular expertise in certain industries where we have been delivering computer-based tests and educational services, including the IT and finance industries, to provide targeted services to employer clients. For example, Saville Wave, which is a career personality test, is available via the HR Select service to assess a candidate's behavioral-based personality and predict his workplace performance. Employers may adopt ready-made tests available in our system, or use their own self-developed tests. If they use their own tests, they can choose to keep the test confidential or permit other HR Select clients to view the tests. By allowing test content to be shared, we believe HR Select can facilitate the standardization of recruitment criteria across industries. HR Select incorporates our computer-based testing technologies and allow clients to deliver the evaluation tests online in a secure, accurate and easy-to-manage manner. HR Select can be administered at ATA authorized test centers or via our customized online platform.

Our current HR Select clients principally include large domestic and foreign-invested companies in professional industries such as insurance and banking. Since fiscal year ended March 31, 2011, the four largest Chinese state-owned banks have become customers of our computer-based testing services that incorporate our HR Select solution. To complement our HR Select offerings, we signed an exclusive ten-year partnership agreement in August 2011 with Saville Assessment, a global human resources assessment firm whose products are available in over 80 countries, to deliver Saville's unique and proprietary psychometric measurement instruments and specialized personality instrument through our testing platform. Saville's psychometric assessment has enhanced our HR Select product portfolio and moved us one step closer to our goal of being a premium provider of international, branded test content.

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***Online Education Services***

We offer online education services to candidates aiming to fulfill their post qualification continuing educational requirements. Our online education services integrate our testing and assessment technologies with online education content targeted at professional licensure and certification tests in China.

*Online education platforms for fund practitioners and futures professionals.* Leveraging the scale of ATA-delivered fund practitioners and futures certification tests, ATA launched online education websites to provide flexible and scalable platforms aimed at helping candidates across China to fulfill their Continuous Professional Development (CPD) requirements after passing their professional licensure and certification tests delivered through our testing platforms for the AMAC and China Futures Association. Online education customers gain access to Internet websites that contain the latest training materials provided by the test sponsors and streaming video of teaching sessions and practice tests developed by ATA.

*Online continued education training platform for banking professionals.* In May 2014, we were authorized by the China Banking Association ( CBA ) on an exclusive basis to develop an online continued education training platform for professionals who had acquired the Vocational Qualification Certificate for China Banking Professionals. This online training platform aims to provide such banking professionals with continuing vocational trainings to fulfill the minimum continuing education requirements after obtaining their qualification certificates. After more than two years of development and testing, we successfully launched this online training platform in July 2016, and the registrants have been growing steadily to approximately 280,000 as of December 31, 2017. We have signed the agreement to cooperate with CBI instead of with CBA directly in 2016 and under our agreement with CBI, we were granted the exclusive right to provide online education services for CBI for five years and were entitled to charge service fees based on the total number of activated online training sessions delivered by the platform each month.

**Data Storage and Security**

One of the most important aspects of our computer-based testing services is ensuring the integrity and security of the test-taking process. To accomplish this, we use multiple technologies and methods to ensure the security of test content, test results and other sensitive data used or obtained in relation to our services.

We have developed and implemented the following technologies and measures to protect security throughout all stages of test development and delivery:

***Preparation and Storage of Test Items***

To reduce the risks associated with potential unauthorized disclosure or misuse of test questions by ATA personnel during the process of creating test item banks, we divide test item authoring and management tasks among multiple persons and limit each person's access to the test item content through the use of access permissions. Each test item author is only responsible for creating a limited amount of test item content and is permitted access only to that content for which that person is responsible. As a result, no one has full access to the contents beyond his or her scope of work. Test item bank managers receive limited permissions and are not given access to the content of individual test items. Moreover, our test item authoring and test item bank management tools record and track all access and modifications to test items or the test item pool to detect any breaches to the security protocols. Once the test item banks are created, the content is encrypted and stored on our secure central servers or the client's servers. Our servers are located in a central machine room operated by one of the most well-established server hosting service providers in China. These servers are protected by firewalls and stored using NetApp<sup>TM</sup> equipment, which permits real-time back-up. We encrypt all test item banks using our self-developed encryption algorithm, which strive to prevent decryption or reverse engineering through the use of electronic fingerprinting, anti-tracking and trapping technologies. We have also started to collaborate with a leading global cloud computing service provider to jointly develop cloud-based data storage technologies since September 2017.

***Creation of Test Forms and Transmission of Test Materials to the Test Site***

Our software applications automatically compile individual test forms from the test item bank according to the test blueprint and pre-arranged parameters. During this process, no access of the content of individual test items is permitted and all steps in the process are digitally recorded. The encrypted test forms are delivered to the test site's server either on hard disc or through a secure network, generally one day before the day of the test. The relevant information on each test taker is separately transferred in encrypted format to the test site via the Internet. A hardware dongle containing an encrypted time stamp is used to ensure that the test begins and ends on time. A hardware dongle is a hardware device that must be inserted into the USB port of the test site's central computer to decrypt and operate the test content. We design our own hardware dongles, which incorporate ATA-owned integrated circuit technology, and outsource its production to multiple factories in China. A decryption algorithm is used along with the hardware dongle to complete decryption of test materials and commence the test.



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***Conduct of the Test***

We train all test center personnel on protocols and supervision techniques to be used during test time. Test center administrators confirm test takers' identities through photographs, fingerprints and other biometric data. We also issue to each test taker upon registration a password that must be inputted on the test day to start the test. Once the test session has begun, software installed as part of each test tracks all actions and operations taken during the test and records them on the test site central server in real time. The testing software is designed to prevent test takers from accessing any network during test time. When a test taker opens up a question, it is decrypted and displayed. To protect against cheating, we have invested in surveillance equipment and the order in which test answer choices appear is randomly generated with each answer choice encoded as a unique number and letter chain. Immediately upon the test taker's completion of each test item, the recorded data is re-encoded and re-encrypted.

***Transmission, Reading and Storage of Test Results***

In most instances, tests are scored on the test site server immediately following conclusion of the test and subsequently uploaded to our central servers. All transferred data is encrypted and data code integrity is verified using the latest technologies, including MD5 and Hash. Following scoring, we store all test content and results on our firewall-protected central servers.

***Data-driven Cyber Security System***

We utilize a data-driven cyber security system to detect and prevent potential cyber security risks and vulnerabilities that arise in our operations. This system adopts a quick, responsive defense model based on big data analytics which gathers, processes and analyzes massive amounts of network data, and applies algorithms to identify anomalous activities, unseen patterns or conceivable security holes in our network systems. It accurately tracks the IP addresses and identities of hackers and provides advance warning of potential threats, thereby strengthening our ability to defend against malicious network infiltration and cyber-attacks.

**Intellectual Property**

Intellectual property protections, including copyrights, trademarks, patents, and trade secrets are important to our success. We rely on copyright, trademark and patent law, trade secret protection and confidentiality agreements with our employees, clients, business partners and others to protect our intellectual property rights. All of our senior management and engineering employees are required to sign agreements acknowledging that all inventions, trade secrets, works of authorship, innovations and other processes generated by them that relate to our business are our property, and to assign to us any ownership rights in those works. Despite our efforts, it may be possible for third parties to obtain and use our intellectual property without authorization.

As of December 31, 2017, we have registered 237 software copyrights relevant to our product and service offerings with the National Copyright Administration of the People's Republic of China, or NCA, including 25 software copyrights

which were newly registered in the nine months ended December 31, 2017.

As of December 31, 2017, we have also registered 318 domain names relating to our websites, including [www.atai.net.cn](http://www.atai.net.cn), the primary URL for our website, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center, a domain name registration service provider in China.

We have also sought patent protection relating to our testing technology. On February 22, 2013, we submitted applications to China's State Intellectual Property Office seeking necessary invention patent and utility model protection for our testing transmission technology. Our application for utility model protection was granted on August 28, 2013, which gives us a protection period of 10 years starting from the date of application. In addition, our testing technologies also enjoy protection in China as trade secrets under China's Anti-Unfair Competition Law.

## Clients

The quality and flexibility of our product and service offerings have attracted a broad base of clients. Our clients principally include Chinese governmental agencies, professional associations, well-known IT vendors as well as individual online education services consumers. CICPA, AMAC and CBI accounted for 23.3%, 14.5% and 10.7%, respectively, of our total net revenues for the nine months ended December 31, 2017. No other client accounted for more than 10% of our total net revenues for the nine months ended December 31, 2017.

As of December 31, 2017, we had 486 contracts with test sponsors for our computer-based testing services. For the nine months ended December 31, 2017, our five largest computer-based testing services clients based on revenue were:

- CICPA, which has been designated by Ministry of Finance of the People's Republic of China as the sole administrator of CPA qualification tests in China;
- AMAC, which has been designated by CSRC as the sole administrator of Fund Practitioners Certification tests in China;
- CBI, which has been designated by the MOHRSS and CBRC as the sole administrator of banking industry qualification tests in China;
- Occupational Skill Testing Authority (OSTA) of the PRC Ministry of Human Resources and Social Security; and



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- CCTAA, which has been designated by the State Administration of Taxation as the sole administrator of National Tax Adviser Occupational Qualification Exam tests in China.

These five clients represented an aggregate of 61.6% of our total net revenues for the nine months ended December 31, 2017.

**Sales and Business Development**

Our sales and business development department, primarily composed of members of our senior management and professional sales team, is responsible for identifying and developing new markets and client opportunities for our product and service offerings.

For our computer-based testing services, we target key governmental agencies, professional associations, enterprises and other potential clients to help them develop standardized certification, qualification or assessment policies. Once we identify a potential client, we generally submit an initial proposal outlining the services we can provide based on our analysis of their test-related needs. We may develop and conduct trial tests tailored to the clients' needs based on the terms of a memorandum of understanding signed with the client. We generally enter into a final contract with the client only after successful completion of the trial tests. During this process, we also actively seek opportunities to cross-sell and up-sell our services, including online education services and ancillary testing services to the client. The following diagram illustrates the key stages in our testing services business development process.

**Marketing**

To generate demand and market awareness, we engage in a variety of marketing activities to promote our product and service offerings. We host and invite potential clients, such as key governmental agencies and governing bodies, to industry conferences on topics such as the development of computer-based testing technologies. We also attend conferences and trade shows to demonstrate and promote our technologies, product and service offerings. We conduct marketing for our service offerings through promotional activities in cooperation with local governmental departments and educational institutions and through our local sales agents. Our on-campus marketing activities include promoting the licensure and certification tests linking to our ATA brand name, through prominently placed marketing materials like posters and other advertising means. We promote wider recognition of our ATA brand by placing our logo prominently outside ATA authorized test centers and in test and course program materials. We are also developing joint marketing efforts with certain independent operators of our ATA authorized test centers. In addition, to seize business opportunities in regional markets, starting in the third quarter of 2017, we have decentralized our sales and marketing functions by establishing nine provincial representative offices across China. This allows us to increase our market penetration and competitiveness by focusing on our clients' specific needs in different geographic regions.

## Competition

In the computer-based testing services market, we compete primarily on the basis of technology, price, management experience, established infrastructure, reputation and brand. We believe that our overall testing services and technologies, along with our nationwide test center network, provide us with a competitive advantage. We believe that we are currently the market leader in computer-based testing services in China due to a combination of our experience in and familiarity with the China computer-based testing services market, our advanced technologies, our large nationwide network of test centers, our established relationships with key test sponsors and governmental agencies and our competitive cost levels.

To our knowledge, based on interactions with clients and others in the market, we believe that we have the largest test center network of any commercial computer-based testing service provider in China. We had 3,344 authorized test centers in China, including centers in every province in China, as of December 31, 2017. Our vast network of test centers allows our clients to administer large-scale nationwide computer-based tests in a consistent, secure and cost-effective manner. During the nine months ended December 31, 2017, approximately 12.4 million tests were delivered using our computer-based testing technologies and services, and our capacity for test delivery, which can be easily expanded if necessary, is already more than 1,200,000 tests per day.

For our HR Select employee assessment solution, while there are other companies providing recruitment services to corporate human resources departments, we are differentiated by our comprehensive and professional testing services with proprietary testing contents and technologies.

While we anticipate new market entrants and increased efforts by existing international players to expand their presence in China, we believe that relatively high entry barriers, such as the time and costs associated with establishing a large-scale test center network, will make it difficult for new entrants or international competitors to quickly gain market share from us in China. We believe that potential domestic entrants lack the technology and commercial relationships that we possess. International competitors will likely face challenges in establishing effective relationships with key Chinese government and industry test sponsors or local educational institutions.

## Seasonality

We have experienced seasonality and expect in the future to continue experiencing seasonality in net revenues and accounts receivable related to our test delivery services, with the quarters ending June 30 and December 31 typically having higher net revenues and the quarters ending September 30 and March 31 typically having lower net revenues from testing services. This is primarily because the tests from which we derive substantial revenues are mostly delivered in the quarters ending June 30 and December 31.

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**Regulation**

This section sets forth a summary of the most significant laws, regulations, policies and requirements that affect our business activities in China, the industries in which we operate, and our shareholders' right to receive dividends and other distributions from us.

***Regulation of the Software Industry***

In China, holders of computer software copyrights enjoy protection under the Copyright Law of the People's Republic of China, or the Copyright Law. Under the Copyright Law, China's State Council and the State Copyright Administration have also promulgated various regulations relating to the protection of software copyrights in China. Under these regulations, computer software that is independently developed and exists in a physical form will be protected, and software copyright owners may license or transfer their software copyrights to others. Registration of software copyrights and exclusive licensing and transfer contracts with the Copyright Protection Center of China (previously, the State Copyright Administration) or its local branches are encouraged. Such registration is not mandatory under Chinese laws, but can enhance the protections available to the registering parties. For example, the registration certificate serves an evidentiary function enabling the registering parties to prove they have protectable rights. We have registered 237 software copyrights with the NCA as of December 31, 2017.

China's Ministry of Industry and Information Technology (and its predecessors), or MIIT, has promulgated regulations to regulate the production, sale, import or export of software products in China. Under these regulations, all domestically produced software products to be operated or sold in China must be duly registered and filed with the provincial branches of MIIT. We have complied with the registration and filing requirements necessary to sell our software products in China. These registrations generally remain in effect for five years and are subject to renewal.

***Regulation of Vocational Education***

Chinese laws and regulations impose restrictions on foreign investment in educational institutions in China. However, Chinese laws and regulations do not impose restrictions on foreign investment in companies providing course and test content or related products and services to educational institutions. According to the Catalog of Industries for Guiding Foreign Investment amended in 2017, foreign investment in non-academic vocational education institutions is encouraged and there is no limitation to the maximum percentage of foreign ownership in a company operating non-academic vocational education business.

In addition, the Chinese government has issued a series of circulars and regulations promoting the development of vocational education, including "The Decision to Enhance the Promotion of the Reform and Development of Vocational Education", "The Decision to Enhance the Development of Vocational Education" and "The Decision to Enhance the Development of Modern Vocational Education" published by the State Council on September 24, 2002, October 28, 2005 and May 2, 2014, respectively. These circulars and regulations require all levels of governments in China to intensify their support for vocational education and to gradually increase the financial resources that local and provincial governments allocate to vocational education.

***Regulations regarding Internet Content Provider Licensure Requirements***

We planned to engage in online testing preparation business, which are subject to PRC regulations including but not limited to Telecommunications Regulations, the Administrative Rules on Foreign-Invested Telecommunications Enterprises, the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecom Business, the Administrative Measures for Telecommunications Business Operating Licenses (2017), the Internet Information Services Administrative Measures, and Certain Rules on Regulating the Order of Internet Information Service Market. ATA Online previously held an ICP license issued by the Beijing Telecommunications Administration Bureau, a local branch of the MIIT, which allows ATA Online to provide Internet content distribution services. However, as ATA Online has not engaged in online testing preparation business since its incorporation, ATA Online deregistered its ICP license in 2015. Under PRC laws, ATA Online is not required to hold an ICP license.

In the opinion of Jincheng Tongda & Neal Law Firm, our PRC legal counsel:

- the ownership structures of our wholly-owned subsidiaries in China are in compliance with existing published Chinese laws and regulations; and
- the business operations of our company, all of our Chinese subsidiaries, as described in this transition report, are in compliance with existing published Chinese laws and regulations in all material aspects.

***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 in 2000, educational websites and online education schools may provide education services in relation to higher education, elementary education, pre-school education, teaching education, occupational education, adult education, other education and public educational information services. Educational websites refers to organizations providing education or education-related information services to website visitors by means of a database or online education platform connected via the Internet or an educational television station through an Internet service provider, or ISP. Online education schools refer to education websites providing academic education services or training services with the issuance of various certificates.

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Setting up educational websites and online education schools is subject to approval from relevant education authorities, depending on the specific types of education provided. 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 Standing Committee of 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 set down administrative license. On June 29, 2004, the State Council promulgated the Decision on Setting 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. On January 28, 2014, the State Council promulgated the Decision to Cancel or to Delegate another Batch of Administrative Approval Items to Lower Level, in which the administrative license for online education schools was cancelled for higher education. On February 3, 2016, the State Council promulgated the Decision of State Council to Cancel the Second Batch of Administrative Approval Items (152 Items) that Delegated to Lower Level, in which the administrative license for online education schools and educational websites were cancelled.

***Regulation of Broadcasting Audio-Visual Programs through the Internet or Other Information Network***

The State Administration of Radio, Film and Television, or SARFT, promulgated the Rules for Administration of Broadcasting of Audio-Video Programs through the Internet and Other Information Networks, or the Broadcasting Rules, in 2004, which became effective on October 11, 2004. The Broadcasting Rules apply to the activities of broadcasting, integration, transmission, downloading of audio-video programs with computers, televisions or mobile phones as the main terminals and through various types of information networks. Pursuant to the Broadcasting Rules, a Permit for Broadcasting Audio-video Programs via Information Network is required to engage in these Internet broadcasting activities. On April 13, 2005, the State Council announced a policy on private investments in businesses in China that relate to cultural matters, which prohibits private investments in businesses relating to the dissemination of audio-video programs through information networks. On April 25, 2016, the SARFT promulgated the Private Network and Directional Broadcasting Audio-Video Programs Regulations, which came into effect on June 1, 2016 and replaced the Broadcasting Rules. The Broadcasting Audio-Video Programs Regulations provide, among other things, that a Permit for Broadcasting Audio-Video Programs via Information Network is required for engaging in broadcasting services through private network and directional communication. According to such Regulations, the Broadcasting Services through Private Network and Directional Communication shall mean the services and activities provided to the public through the private transmission channels that include internet, LAN and VPN based on Internet and through the receiving terminals of televisions, and other handheld electronic equipment, and such services and activities include the activities of content supply, integrated broadcast control, transmission and distribution with IPTVs, private-network mobile televisions, internet televisions. According to such Regulations, only the entities wholly or substantially owned by the State could apply for such Permit.

On September 2, 2016, the SARFT issued a Notice on Problems regarding Strengthening the Administration of Internet Audio-video Programs Live Broadcasting Services, which provides that (i) the provision of audio-video live broadcasting of important political, military, economic, social, cultural, sports and other activities and events and (ii) the provision of audio-video live broadcasting of cultural activities by general social organizations, sports events and activities alike require an audio-video program transmission license.

On November 4, 2016, the Cyberspace Administration of China promulgated the Provisions on the Administration of Online Live Broadcasting Services, which became effective as of December 1, 2016. Such Provisions provide that anyone who provides online live broadcasting services through online performances, internet video/audio programs and so forth, shall obtain relevant qualifications as required by laws and regulations.



In November 2016, the SARFT issued a Notice on Strengthening the Administration of Audio-video Programs Transmission on Weibo, WeChat and Other Internet Social Networking Platforms, which further clarifies that anyone who operates internet audio/video services through Weibo, WeChat and other internet social networking platforms must obtain an audio-video program transmission license and operate its business pursuant to the scope as provided in such license.

On December 20, 2007, SARFT and MIIT issued the Internet Audio-Video Program Measures, which became effective on January 31, 2008 and was revised on August 28, 2015. Among other things, the Internet Audio-Video Program Measures stipulate that no entities or individuals may provide Internet audio-video program services without a license for disseminating audio-video programs through information network issued by SARFT or its local counterparts or completing the relevant registration with SARFT or its local counterparts and only entities wholly owned or controlled by the PRC government may engage in the production, editing, integration or consolidation, and transfer to the public through the Internet, of audio-video programs, and the provision of audio-video program uploading and transmission services. On February 3, 2008, SARFT and MIIT jointly held a press conference in response to inquiries related to the Internet Audio-Video Program Measures, during which SARFT and MIIT officials indicated that providers of audio-video program services established prior to the promulgation date of the Internet Audio-Video Program Measures that do not have any regulatory non-compliance records can re-register with the relevant government authorities to continue their current business operations. After the conference, the two authorities published a press release that confirms the above guidelines. On September 15, 2009, SARFT promulgated the Notice on Several Issues regarding the license for disseminating audio-video programs through information network. The Notice restates the necessity of applying for such license and sets forth the legal liabilities for those providing Internet audio-video program services without the license.

#### ***Regulations Relating to Internet Content and Information Security***

Internet content in the PRC is regulated and restricted by the PRC government. The Administrative Measures on Internet Information Services, which was amended in 2011, specify that internet information services regarding news, publications, education, medical and health care, pharmacy and medical appliances, among other things, are to be examined, approved and regulated by the relevant authorities. Internet information providers are prohibited from providing services beyond those included in the scope of their ICP licenses or filings. Furthermore, these measures clearly specify a list of prohibited content. Internet information providers are prohibited from producing, copying, publishing or distributing information that is humiliating or defamatory to others or that infringes the lawful rights and interests of others. Internet information providers that violate the prohibition may face criminal charges or administrative sanctions by the PRC authorities. Internet information providers must monitor and control the information posted on their websites. If any prohibited content is found, they must remove the offending content immediately, keep a record of it and report to the relevant authorities.

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Internet information in the PRC is also regulated and restricted from a national security standpoint. In 2009, the Standing Committee of the National People's Congress has enacted the Decision of the Standing Committee of the National People's Congress on Preserving Computer Network Security, which may subject violators to criminal punishment for any effort to: (1) gain improper entry into a computer or system of strategic importance; (2) disseminate politically disruptive information; (3) leak state secrets; (4) spread false commercial information; or (5) infringe intellectual property rights.

In addition, the Standing Committee of the National People's Congress promulgated the Cyber Security Law of the People's Republic of China, or the Cyber Security Law, which took effect on June 1, 2017, to protect cyberspace security and order. Pursuant to the Cyber Security Law, any individual or organization using the network must comply with the constitution and the applicable laws, follow the public orders and respect social moralities, and must not endanger cyber security, or engage in activities by making use of the network that endanger the national security, honor and interests, or infringe on the fame, privacy, intellectual property and other legitimate rights and interests of others. The Cyber Security Law sets forth various security protection obligations for network operators, which are defined as owners and administrators of networks and network service providers, including, among others, complying with a series of requirements of tiered cyber protection systems; verifying users' real identities; localizing the personal information and important data gathered and produced by key information infrastructure operators during operations within the PRC; and providing assistance and support to government authorities where necessary for protecting national security and investigating crimes.

Furthermore, on May 2, 2017, the Cyberspace Administration issued the Measures for Security Review of Cyber Products and Services (for Trial Implementation), or the Cybersecurity Review Measures, which came into effect on June 1, 2017. Under the Cybersecurity Review Measures, the following cyber products and services are subject to cybersecurity review: (1) important cyber products and services purchased by networks, and information systems related to national security; and (2) purchases of cyber products and services by operators of critical information infrastructure in key industries and sectors, such as public communications and information services, energy, transportation, water resources, finance, public service, electronic administration, and other critical information infrastructure, that may affect national security. The Cyberspace Administration is responsible for organizing and implementing cybersecurity reviews, while the competent departments in key industries such as finance, telecommunications, energy, and transport are responsible for organizing and implementing security review of cyber products and services in their respective industries and sectors. There are still substantial uncertainties with respect to the interpretation and implementation of the Cybersecurity Review Measures.

***Regulation of Domain Names and Website Names***

PRC laws require owners of Internet domain names to register their domain names with qualified domain name registration agencies approved by MIIT and obtain a registration certificate from such registration agencies. A registered domain name owner has an exclusive usage right over its domain name. Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. As of December 31, 2017, we have registered 318 domain names relating to our websites, including [www.atai.net.cn](http://www.atai.net.cn), the primary URL for our website, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center, a domain name registration service provider in China.

PRC law requires entities operating commercial websites to register their website names with SAIC or its local offices and obtain a commercial website name registration certificate. If any entity operates a commercial website without obtaining such certificate, it may be charged a fine or suffer other penalties imposed by the SAIC or its local offices. Our websites used in connection with our testing and education services are considered non-commercial websites as we do not provide products and services through those websites, and therefore the names of those websites are not required to be registered with SAIC. ATA Online has registered the website name used in connection with the online education services with Beijing municipal SAIC.

***Regulation of Privacy Protection***

PRC law does not prohibit Internet content providers from collecting and analyzing personal information from their users. PRC law prohibits Internet content providers from disclosing to third parties any information transmitted by users through their networks unless otherwise permitted by law. If an Internet content provider violates these regulations, MIIT or its local offices may impose penalties and the Internet content provider may be liable for damages caused to its users.

On July 16, 2013, the MIIT issued the Order for the Protection of Telecommunication and Internet User Personal Information. Most requirements under the order that are relevant to internet content provision operators are consistent with pre-existing requirements, but the new requirements are often more stringent and have a wider scope. If an internet content provision operator wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Further, it must disclose to its users the purpose, method and scope of any such collection or use, and must obtain consent from its users whose information is being collected or used. Internet content provision operators are also required to establish and publish their rules relating to personal information collection or use, keep any collected information strictly confidential, and take technological and other measures to maintain the security of such information. Internet content provision operators are required to cease any collection or use of the user personal information and de-register the relevant user account when a given user stops using the relevant internet service. Internet content provision operators are further prohibited from divulging, distorting or destroying any such personal information, or unlawfully selling or providing such information to other parties. In addition, if an internet content provision operator appoints an agent to undertake any marketing and technical services that involve the collection or use of personal information, the internet content provision operator is still required to supervise and manage the protection of such information. As for penalties, violators may face warnings, fines, and disclosure to the public and, in most severe cases, criminal liability under the order.

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Pursuant to the Ninth Amendment to the Criminal Law issued by the Standing Committee of the National People's Congress in August 2015, which became effective in November 2015, any internet service provider that fails to fulfill the obligations related to internet information security administration as required by applicable laws and refuses to rectify upon orders, shall be subject to criminal penalty for the result of (i) any dissemination of illegal information in large scale; (ii) any severe effect due to the leakage of the client's information; (iii) any serious loss of criminal evidence; or (iv) other severe situation, and any individual or entity that (i) sells or provides personal information to others in a way violating the applicable law, or (ii) steals or illegally obtains any personal information, shall be subject to criminal penalty in severe situation.

On November 7, 2016, the Standing Committee of the National People's Congress issued the Cyber Security Law of the People's Republic of China, or the Cyber Security Law, which took effect on June 1, 2017. The Cyber Security Law requires providers of services over Internet networks to keep user information that they have collected in strict confidence and to establish improved systems for the protection of user information. Such service providers must provide notice of the purpose, methods and scope of their collection and use of user information, and obtain the consent of each person whose personal information will be collected. Providers of services over Internet networks may not collect any personal information that is not related to the services they provide, or disclose or tamper with personal information that they have collected, unless such information is encoded to prevent identification of individuals whose information is so disclosed or tampered with. Service providers who do not comply with the Cyber Security Law may be subject to fines, suspension of their businesses, shutdown of their websites, and revocation of their business licenses.

On May 8, 2017, the Supreme People's Court and the Supreme People's Procuratorate jointly issued the Interpretations on Several Issues concerning the Application of Law in the Handling of Criminal Cases Involving Infringement of Citizens' Personal Information which further clarified the meaning of certain terms of Article 253A of the Criminal Law, including but not limited to the terms of "personal information of a citizen", "one providing citizen's personal information" and "serious case".

***Regulation of Foreign Exchange***

The PRC government imposes restrictions on the convertibility of the Renminbi and on the collection and use of foreign currency by PRC entities. Under current regulations, the Renminbi is convertible for current account transactions, which include dividend distributions, interest payments, and the import and export of goods and services. Conversion of Renminbi into foreign currency and foreign currency into Renminbi for capital account transactions, such as direct investment, portfolio investment and loans, however, is still generally subject to the prior approval of SAFE.

Under current PRC regulations, foreign-invested enterprises such as our PRC subsidiaries are required to apply to SAFE or its designated banks for Foreign Exchange Registration. With such a registration, a foreign-invested enterprise may open foreign exchange bank accounts at banks authorized to conduct foreign exchange business by SAFE and may buy, sell and remit foreign exchange through such banks, subject to documentation and approval requirements. Foreign-invested enterprises are required to open and maintain separate foreign exchange accounts for capital account transactions and current account transactions. In addition, there are restrictions on the amount of foreign currency that foreign-invested enterprises may retain in such accounts.

According to Article 22 of the Regulations on the Foreign Exchange System of the People's Republic of China, if the Company's PRC subsidiaries liquidate, the Renminbi distributable to its foreign shareholders after the liquidation and payment of relevant taxes can be freely converted into foreign currency and remitted abroad. Therefore, there are no legal impediments to remitting the proceeds from a liquidation of our PRC subsidiaries outside of China to investors who are not PRC nationals.

Further, SAFE promulgated a new circular (known as Circular 142) in August 2008 with respect to the administration of conversion of foreign exchange capital contributions of a foreign invested enterprise. The circular clarifies that Renminbi converted from foreign exchange capital contributions can only be used for the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investments unless otherwise permitted.

In addition, SAFE also strengthened its oversight over the flow and use of Renminbi converted from the foreign currency denominated capital of a foreign-invested company. The use of such Renminbi may not be changed without approval from SAFE, and such Renminbi may not be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the related foreign exchange administration rules. In addition, SAFE promulgated a circular on November 9, 2010, or Circular 59, which tightens the regulation over settlement of the fund which is raised from overseas offerings such as our initial public offering and follow-on public offering and is transferred back to the PRC and requires that the settlement of such fund must be consistent with the description in the prospectuses for the initial public offering and follow-on public offering. Furthermore, it has recently come to our attention that SAFE issued an internal guideline to its local counterparts, referred to as Circular 45, in November 2011. Circular 45 has never been formally announced by SAFE to the public or posted on SAFE's website. Based on the version made publicly available by certain local governmental authorities on their websites, we understand that Circular 45 requires SAFE's local counterparts to strengthen the control imposed by Circulars 142 and 59 over the conversion of a foreign-invested company's capital contributed in foreign currency into RMB. Circular 45 stipulates that a foreign-invested company's RMB funds, if converted from such company's capital contributed in foreign currency, may not be used by such company to (i) extend loans (in the form of entrusted loans), (ii) repay borrowings between enterprises, or (iii) repay bank loans it has obtained and on-lent to third parties.

On May 10, 2013, SAFE released Circular 21, which came into effect on May 13, 2013. According to Circular 21, SAFE has simplified the foreign exchange administration procedures with respect to the registration, account openings and conversions, receipt and payment, settlements and sale of foreign exchange in relation to foreign direct investment.

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SAFE promulgated the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises, or SAFE Circular 19, on March 30, 2015, which abolished Circular 142. According to SAFE Circular 19, up to all of the foreign exchange capital in the capital account of foreign-invested enterprises can be settled at the banks based on the actual operation needs of the foreign-invested enterprises. The capital in Renminbi obtained by foreign-invested enterprises from the discretionary settlement of foreign exchange capital shall be managed under the account pending foreign exchange settlement payment. The expenditure scope of such account includes: the expenditure within the scope of business, the payment of the capital of domestic equity investment and deposits in Renminbi, the repayment of the used loans in Renminbi, the purchase payment of foreign exchange or direct external repayment of foreign debts or other expenditure approved by the foreign exchange bureaus, but the capital of foreign-invested enterprises and capital in Renminbi obtained by them from foreign exchange settlement shall not be used for the following purposes: (1) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by national laws and regulations; (2) directly or indirectly used for investment in securities unless otherwise provided by laws and regulations; (3) directly or indirectly used for granting the entrust loans in Renminbi (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by the third party) or repaying the bank loans in Renminbi that have been sub-lent to the third party; and (4) paying the expenses related to the purchase of real estate not for self-use, except for the foreign-invested real estate enterprises.

On February 13, 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, or SAFE Circular 13, which became effective on June 1, 2015. Pursuant to SAFE Circular 13, annual foreign exchange inspection of direct investment is not required anymore and the registration of existing equity is required. SAFE Circular 13 also grants the authority to banks to directly examine and process foreign exchange registration with respect to both domestic and overseas direct investment.

### ***Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions***

SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, on July 4, 2014. SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a special purpose vehicle. SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Our significant shareholder, Kevin Xiaofeng Ma, has completed his registration with SAFE, and we have urged our other Chinese resident shareholders to register under SAFE Circular 37 and they are preparing for such application. However, we cannot assure you that the application will be accepted by SAFE.

Failure by such shareholders to comply with SAFE Circular 37 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects. As for Circular 11, since it took effect in March 2018, its impact to us remains to be observed. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may have a material adverse effect on our business,

financial condition and results of operations.

***Regulation of Overseas Listings***

On August 8, 2006, six PRC regulatory agencies, including the Chinese Securities Regulatory Commission, or CSRC, promulgated the Provisions Regarding Mergers and Acquisitions of Domestic Enterprise by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006 without retroactive effect and was amended by the PRC Ministry of Commerce on June 22, 2009. The M&A Rule, among other things, requires that an offshore company controlled by PRC companies or individuals that has acquired a PRC domestic company for the purpose of listing the PRC domestic company's equity interest on an overseas stock exchange must obtain the approval of the CSRC prior to the listing and trading of such offshore company's securities on an overseas stock exchange. On September 21, 2006, the CSRC, pursuant to the M&A Rule, published on its official website procedures specifying documents and materials required to be submitted to it by offshore companies seeking CSRC approval of their overseas listings.

We believe CSRC approval was not required for our initial public offering in February 2008 because the CSRC approval required under the M&A Rule only applies to an offshore company that has acquired a domestic PRC company for the purpose of listing the domestic PRC company's equity interest on an overseas stock exchange, while (i) we obtained our equity interest in each of our PRC subsidiaries by means of direct investment other than by acquisition of the equity or assets of a PRC domestic company in 2008, (ii) our former contractual arrangements with ATA Online do not constitute the acquisition of ATA Online, (iii) the M&A Rule does not apply to the acquisition by ATA Learning, a wholly foreign owned foreign enterprise, and (iv) although Article 11 of M&A Rule prohibits the circumvention of the M&A Rule through establishing FIEs, ATA Learning was established in 2003 before the M&A Rule was promulgated, which makes this acquisition not a circumvention of the M&A Rule. See Item 3.D. Key Information Risk Factors Risks Relating to Regulations of Our Business If CSRC or another PRC regulatory agency determines that CSRC approval was required in connection with our initial public offering, we may become subject to penalties.

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***SAFE Regulations on Employee Share Options***

On February 15, 2012, SAFE issued the Notice on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Option Rules. According to the Stock Option Rules, PRC residents who participate in an employee share incentive plan of an overseas publicly-listed company are required to register with SAFE and complete certain other procedures. These participants should retain a PRC agent, which can be a branch or representative office of the overseas listed company in China, a Chinese institution which has controlling relationship or actual control relationship with the offshore listed company, or a Chinese institution qualified for asset custody business, to handle various foreign exchange matters associated with their employee share incentive plan. The PRC agent should file on behalf of the PRC resident an application with SAFE to register such employee share incentive plan, apply annually for a quota for the payment of foreign currencies in connection with the exercise of the employee share options by the PRC resident and open a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with the share incentive plan. In addition, the PRC agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the employee share incentive plan, PRC agent or overseas entrusted institution.

In addition, the State Administration of Taxation has issued a few circulars concerning employee share options. Under these circulars, our employees working in China who exercise share options will be subject to PRC individual income tax. Our PRC subsidiaries have obligations to file documents relating to employee share options with relevant tax authorities and withhold individual income taxes of those employees who exercise their share options. If our employees fail to pay and we fail to withhold their income taxes, we may face sanctions imposed by tax authorities or other PRC government authorities.

***Employment Laws***

In accordance with the Labor Law, which became effective in January 1995, and the Labor Contract Law, which was promulgated on June 29, 2007, amended on December 28, 2012 and became effective on July 1, 2013, employers must execute written labor contracts with full-time employees in order to establish an employment relationship. According to the Labor Contract Law, an employer is under an obligation to sign an unlimited-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unlimited term, with certain exceptions. The employer must also pay severance to an employee in nearly all instances where a labor contract, including a contract with an unlimited term, is terminated or expires. All employers must compensate their employees equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with appropriate workplace safety training. In addition, the government has continued to introduce various new labor-related regulations after the Labor Contract Law. Among other things, new annual leave requirements mandate that annual leave ranging from 5 to 15 days is available to nearly all employees and further require that the employer compensate an employee for any annual leave days the employee is unable to take in the amount of three times his daily salary, subject to certain exceptions. In addition, companies operating in China are required to participate in social insurance and housing fund plans in which the employers must pay for the employees' social welfare and housing fund based upon certain percentages of employees' salaries.

**C. Organizational Structure**

For information on our organizational structure and a detailed description of the Company's significant subsidiaries, see Item 4.A. History and Development of the Company.



#### **D. Property, Plant and Equipment**

Our principal executive offices are located in approximately 3,023 square meters office space used by us at 1/F East Gate, Building No.2, Jian Wai Soho, No.39 Dong San Huan Zhong Road, Chao Yang District, Beijing 100022, China. We also own 2,124 square meters office space at Tower E, 6 Gongyuan West Street, Jian Guo Men Nei, Beijing 100005, China, which we have leased to two tenants. ATA will continue to own such properties subsequent to the sale of ATA Online. We also occupy approximately 3,220 square meters of leased office space in our subsidiaries and branches located in Shanghai, Wuhan, Nanjing, Guangzhou, Jinan and Xi'an. We believe our existing facilities are adequate for our current requirements and that additional space can be obtained on commercially reasonable terms to meet our future requirements.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

##### **A. Operating Results**

###### **Overview**

###### ***Our Business***

We believe that we are the leading provider of computer-based testing services in China, based on test delivery capacity and geographic coverage. We offer comprehensive services for the creation and delivery of computer-based tests utilizing our nation-wide test center network, proprietary testing technologies and extensive experience in providing testing services in China. Our total net revenues increased from RMB 417.1 million in the fiscal year ended March 31, 2016 to RMB 472.4 million in the fiscal year ended March 31, 2017, and from RMB 435.4 million in the nine months ended December 31, 2016 to RMB 490.1 million (\$75.3 million) in the nine months ended December 31, 2017. We had net income of RMB 26.1 million in the fiscal year ended March 31, 2016 and net loss of RMB 10.0 million in the fiscal year ended March 31, 2017. We had net income of RMB 43.9 million in the nine months ended December 31, 2016 and net income of RMB 27.8 million (\$4.3 million) in the nine months ended December 31, 2017.

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We started our business in 1999 focusing on providing computer-based testing services to test sponsors. Our testing services revenues have grown primarily as a result of increases in the number of testing services clients and the number of test takers who take tests created or delivered using our testing technologies. Revenues from testing services accounted for 92.2% and 91.0% of our total net revenues in the fiscal years ended March 31, 2016 and 2017, respectively, and 92.4% and 92.5% in the nine months ended December 31, 2016 and 2017, respectively. We expect our testing services revenues to continue to be the largest source of our total net revenues. In March 2009, we launched HR Select, an employee assessment solution that utilizes our proprietary software and large test titles to assist companies in streamlining and optimizing their employee selection and assessment processes. HR Select offers tools for filtering and categorizing employee candidates, testing candidates and analyzing the test results. We are also a distributor and administrator of certain TOEIC exams to our institutional clients in China. Revenues from HR Select and distribution and administration of TOEIC exams are included in testing services revenues. The following graph shows the growth in the number of tests delivered using our testing technologies for the twelve months ended March 31, 2014, 2015, 2016, 2017 and the nine months ended December 31, 2017.

Number of Exams Delivered (1)

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(1) Includes free tests delivered for business development purposes. The number of tests delivered excluding the free tests in the fiscal years ended March 31, 2014, 2015, 2016, 2017 and the nine months ended December 31, 2017 was 9,411,226, 8,767,389, 10,258,866, 12,127,203 and 12,345,481 respectively.

We also offer targeted online education services for certain professional licensure and certification tests in the securities and banking industries. ATA operates online education websites and training platforms to help candidates across China fulfill their continuing educational requirements after passing their professional licensure and certification tests for the China Futures Association and CBI. Revenues from our online education services accounted for 1.2% and 1.6% of our total revenue in the fiscal years ended March 31, 2016 and 2017, respectively, and 1.6% and 1.3% in the nine months ended December 31, 2016 and 2017, respectively.

As of December 31, 2017, we operated our business and generated our net revenues primarily through our subsidiaries in China, ATA Testing, ATA Learning and ATA Online. Before ATA Online became our wholly-owned subsidiary in May 2015, due to PRC laws and regulations restricting foreign ownership in distributors of Internet content, ATA BVI, ATA Learning, ATA Online and ATA Online's shareholders entered into a series of contractual arrangements, through which we effectively controlled and enjoyed the economic benefits of ATA Online. As a result of those contractual arrangements pursuant to the variable interest entity agreements, or VIE agreements, under U.S. GAAP, we were considered the primary beneficiary of ATA Online and we consolidated ATA Online's results in our consolidated financial statements accordingly, until ATA Online became our wholly-owned subsidiary in May 2015. Since May 2015, we restructured our testing services business and online education services into ATA Online for purposes of listing it separately on the New Third Board and henceforth, we terminated the abovementioned contractual arrangements. See Item 4.A. Information on the Company History and Development of the Company.

On February 6, 2018, ATA entered into the Share Purchase Agreement with the Buyer Group with respect to the sale of ATA Online. If this transaction is completed, we will no longer conduct our testing development and delivery business currently operated by ATA Online. Subsequent to the closing of this transaction, the remaining portions of our businesses primarily include the following: (i) development of K-12 education assessment tools and contents, (ii) our collaboration with Nanjing University and the Education and Research Institute of Tsinghua University on several research projects, and (iii) our strategic investments in EEO, ApplySquare, GlobalWisdom, Brilent, Satech and Master Mind. Subsequent to the closing of this transaction, we intend to leverage our existing competency-focused assessment and education service capabilities and the strategic opportunities that we have been working on to transform our company into a leading international education service provider. We plan to focus on three areas: (i) international education services for providing services to talents internationally; (ii) vocational training services for candidates using international resources and approaches; and (iii) evaluation services for assessing and evaluating candidates through content and methodologies. We also plan to use the proceeds from this transaction to fund one or more of the following matters: (i) seeking and acquiring potential merger and acquisition targets in the education industry; (ii) developing and expanding our retained businesses in assessment content and instrument development in K-12 and higher education industries; (iii) strengthening our collaboration with Nanjing University and Tsinghua University in conducting ongoing and additional research projects; and/or (iv) distributing dividends to our shareholders.

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On April 4, 2018, the First Closing was completed, and the Second Closing and/or the Third Closing still remain uncertain as of the date of this transition report. If this transaction is not consummated, we will continue to conduct our testing development and delivery business currently operated by ATA Online, and may consider and evaluate other strategic opportunities. However, there can be no assurances that our continued operation of ATA Online-related businesses or any alternative strategic opportunities will result in the same or greater results of operation or values to our shareholders as with the sale of ATA Online.

***Factors Affecting Our Results of Operations***

The key factors affecting our results of operations are:

- growth in China's professional services sector resulting in an increasing demand for qualified and certified talents in China and in the finance industry in particular;
- overall economic growth and rising income levels in China contributing to the increasing spending on education, testing and test preparation;
- government and industry initiatives to standardize and license professionals in industries such as securities, futures, banking, law and accounting;
- growth in the use of computer-based tests and performance-based tests and willingness of test sponsors to outsource test content development and delivery for sophisticated computer-based tests as well as online education programs;
- the increasing importance of identifying qualified talents contributing to an increasing demand for testing and certification programs that can confirm the qualifications of applicants or job seekers; and
- our ability to continue to introduce new services and testing platforms and the market success of such services and platforms, such as our EzTest and EzInterview, distribution and administration of certain test titles.

Although we anticipate the above factors will continue to increase demands for our products and services in China, a slowing or reversal of any of the above factors could cause our revenue growth to slow or stop, or to not grow as fast as we might

expect.

In addition, our results of operations have been, and may continue to be, significantly affected by the following factors:

- the impacts of our sale of ATA Online;
- share-based compensation;
- the impacts of PRC tax policies, including certain preferential tax rates;
- the relative proportion of our net revenues derived from higher- and lower-gross margin service offerings; and
- the impacts of strategic investments.

#### Net Revenues

We derive revenues primarily from the sale of computer-based testing services, online education services, and other products and services. Our net revenues are presented net of PRC business taxes and value added tax. The following table sets forth a breakdown of our total net revenues for the periods.

	For the fiscal year ended March 31, 2016		2017		For the nine months ended December 31, 2016		2017		
	RMB	% of net Revenues	RMB	% of net Revenues	RMB (Unaudited)	% of net Revenues	RMB	US\$	% of net Revenues
<b>Net Revenues</b>									
Testing Services	384,800	92.2%	430,057	91.0%	402,549	92.5%	453,225	69,660	92.5%
Online education services	4,897	1.2%	7,462	1.6%	7,070	1.6%	6,553	1,007	1.3%
Other	27,443	6.6%	34,867	7.4%	25,817	5.9%	30,281	4,654	6.2%
<b>Total net revenues</b>	<b>417,140</b>	<b>100.0%</b>	<b>472,386</b>	<b>100.0%</b>	<b>435,436</b>	<b>100.0%</b>	<b>490,059</b>	<b>75,321</b>	<b>100.0%</b>

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We derive testing services revenues primarily from fees charged to test sponsors, including governmental agencies and other sponsors of licensure and certification tests, for our test delivery services. We also offer testing services to enterprises as part of our HR Select employee assessment solution and administer TOEIC and ACT exams in China.

We offer our clients a comprehensive set of services including the compilation, delivery and analysis of computer-based tests using our E-testing platform, as well as logistical services such as test registration and fee collection. We generate revenues from our test delivery services through fees charged to test sponsors based on the total number of test takers taking a requested test or tests taken by test takers. Our clients typically pay us within two to six months after delivery of the tests. We recognize revenue for test delivery services upon the completion of the relevant tests.

We have experienced seasonality and expect in the future to continue experiencing seasonality in net revenues and accounts receivable related to our test delivery services, with the quarters ending June 30 and December 31 typically having higher net revenues and the quarters ending September 30 and March 31 typically having lower net revenues from testing services. This is primarily because the tests from which we derive substantial revenues are mostly delivered in the quarters ending June 30 and December 31.

***Significant Factors Affecting Testing Services***

The most significant factor directly affecting our revenues from fees charged for our testing services is the number of tests taken by test takers. The number of tests taken is driven by our ability to secure contracts with test sponsors for the creation and delivery of computer-based test titles popular with test takers. The volume of tests we offer is determined by the willingness of test sponsors to use our services. Our revenues from fees charged for our testing services are also affected by the price we can charge per test, which generally remains fairly stable once we are contracted by a test sponsor to help deliver a particular test.

Demand and pricing for a test is affected by whether a certification, licensure or qualification test associated with certain profession, career or job position is considered desirable by potential test takers. Some industries may experience fluctuations in the number of people attempting to become qualified to participate in the industry, which will depend on the overall health of the relevant industry, changes in average salary levels in the relevant industry, the popularity of certain types of careers and employers, governmental policies that impact the relevant industry, or other factors.

In addition, obtaining contracts from test sponsors for new test titles and upgrading the existing test titles often requires considerable time and resources. Many of our clients administer tests taken by a large number of people on a regular basis, and maintaining consistency and stability from year to year of the test delivery format is important to them. The decision process involved in adopting a new type of test or a new test delivery format can be difficult and complex. These factors often result in significant delays in our ability to secure contracts, and make it difficult to predict our revenues from fees paid by test sponsors in any given year. On the other hand, for test sponsors that administer many tests on a regular basis, our ability to secure an initial contract and to effectively meet their test delivery requirements under the contract can help us obtain future test title contracts from these test sponsors. This enables us to increase and diversify our revenues and to hinder competitors from entering into contracts with these test sponsors.

***Online Education Services***

We derive online education services revenues from the provision of online education services.

ATA provides online education services for the AMAC, China Futures Association and CBI by operating online education websites and training platforms for fund practitioners, futures and banking professionals who are required to fulfill continuing educational requirements after passing their professional licensure and certification tests. We operate an online platform for students who are required to conduct continuing education. The platform entitles students to access online education services during a specified service period (the subscription period). Service fees are initially recorded as deferred revenue and are recognized as revenue on a straight-line basis over the subscription period.

***Significant Factors Affecting Online Education Services***

A number of factors affect our revenues from online education services as our online education services aim to help test takers who passed professional licensure and certification tests fulfill their post-qualification continuing educational requirements, demand for our online education services primarily depends on whether such continuing educational requirements will still be in place going forward. In addition, as we historically offered online education services for tests that are delivered through our test delivery platforms, our ability to grow our online education services is also affected by the willingness of our test sponsor clients to permit us to provide online education services for their tests. Some test sponsor clients may not permit us to provide online education services in relation to tests for which we provide test delivery and other services due to a perceived conflict of interest. Furthermore, demand for online education services for a particular test also depends on the relative level of importance or difficulty of the test. For more important and difficult tests, the demand for online education services will be relatively greater. Therefore, our ability to secure test delivery services contracts for more important and more difficult tests may affect our online education services. Moreover, because we generally do not develop the learning content used in our online education services, our ability to license online education learning content and materials from relevant test sponsors or third party content providers is also critical for continuing our offer of online education services.

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**Other Revenues**

We derive other revenues from test content creation services, delivery of certificates to passing candidates, licensing fees paid to us by operators of our ATA authorized test centers, and other fees and services.

*Test content creation services.* Our test content creation services include the installation of our technology on client testing platforms, the conversion of paper-based test items into computer-based tests items, and other related services. We charge service fees for these test content creation services.

*Certificate delivery.* Many of our testing services clients charge passing candidates a separate fee to issue a certificate for the test passed. We deliver upon request, and charge a per-certificate fee for delivery of certificates to these candidates.

*Licensing fees from ATA authorized test centers.* We license our ATA name and E-testing platform technology and provide training and support during the contract period in exchange for license fees.

*Test administration products.* We offer our test administration products to our clients.

*Other fees and services.* From time to time and as requested by our clients, we may provide IT consulting, system integration services or other testing-related services to our clients. We also generate rental income by leasing our own properties.

**Cost of Revenues**

Our cost of revenues consists primarily of test monitoring costs, payroll compensation, royalty fees and other related costs, all of which are directly attributable to the provision of our testing services, online education services and our other services. The following table shows our cost of revenues and gross profit for the periods indicated:

For the fiscal year ended March 31,				For the nine months ended December 31,				
2016		2017		2016		2017		
RMB	100%	RMB	100%	RMB	100%	RMB	US\$	100%
(Unaudited)								



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	(in thousands, except or percentage)								
Net Revenues	417,140	100.0%	472,386	100.0%	435,436	100.0%	490,059	75,321	100.0%
Cost of Revenues	208,017	49.9%	239,853	50.8%	218,885	50.3%	259,050	39,816	52.9%
Gross Profit	209,123	50.1%	232,533	49.2%	216,551	49.7%	231,009	35,505	47.1%

### *Test Monitoring Costs*

Test monitoring costs consist of fees paid to test centers, including a fixed fee per test taker, which varies for different tests, to hire test proctors, to rent testing facilities and for the peripheral items used for the provision of our testing services, and signage used to identify and brand our ATA authorized test centers.

### *Payroll Compensation*

Payroll compensation consists of base salaries, remunerations and related welfare benefits paid to staff in our services implementation and customer support departments.

### *Royalty Fees*

Royalty fees primarily consist of fees paid to ETS for the TOEIC exams distribution right in Mainland China, license fees paid to Saville Assessment for its psychometric assessment tests used in our HR Select service, license fees paid to CBI for our exclusive rights in providing online education services for CBI and license fees paid to ACT for the exclusive right to provide a variety of ACT test preparation measures to students in China.

### *Factors Affecting Gross Margin*

Our gross margin is primarily affected by our revenue per test and test-related costs, including test monitoring costs, payroll compensation and royalty fees. Gross margin for different test titles varies and is typically lower for initial deliveries.

### **Operating Expenses**

Our operating expenses consist of general and administrative expenses, sales and marketing expenses, research and development expenses and provision for doubtful accounts.

### *General and Administrative Expenses*

Our general and administrative expenses consist primarily of salaries and benefits, travel, administration and share-based compensation expenses for our administrative, management and finance personnel, as well as other expenses including professional fees, office expenses and rental costs.

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***Sales and Marketing Expenses***

Our sales and marketing expenses consist primarily of salaries and benefits, traveling expenses, and share-based compensation expenses for our sales and marketing personnel, as well as other expenses including sales agency fees, conference hosting expenses, advertising and promotional expenses, entertainment expenses and other sales and marketing expenses.

***Research and Development Expenses***

Our research and development expenses consist primarily of costs of equipment used in our research and development activities, salaries and benefits for our research and development personnel, costs of outsourcing services and other costs relating to the design, development, testing and enhancement of our products, technologies and services.

***Provision for Doubtful Accounts***

The provision for doubtful accounts represents our best estimate of the amount of probable credit losses resulting from our customers or non-customer business partners' inability to make required payments. We consider the age of doubtful receivable, historical collection experience, and business partners' individual conditions.

**Share of losses of equity method investments**

We apply the equity method to account for our equity interests in investees over which we have significant influence but do not own majority equity interests or otherwise control. Under the equity method of accounting, our share of the investees' results of operations is reported as share of income (losses) of equity method investments in the consolidated statements of comprehensive income (loss).

**Impairment Loss of long-term investments**

The impairment loss of long-term investments is recognized when there is a decline in value below the carrying value or cost of the long-term investment that is considered to be other than temporary. To determine whether an impairment is other than temporary, management of the Company considers whether the Company has the ability and intent to hold the investment until recovery and whether evidence indicating the carrying value or cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the decline in value, any change in value subsequent to the period end, and forecasted

performance of the investee.

## **Taxation**

### ***Cayman Islands and British Virgin Islands***

Under the current laws of Cayman Islands and British Virgin Islands, the Company and ATA BVI are not subject to income tax. In addition, upon any payments of dividends by the Company or ATA BVI, no Cayman Islands or British Virgin Islands withholding tax is imposed.

### ***Hong Kong***

Xing Wei did not derive any income that is subject to Hong Kong profits tax for the fiscal years ended March 31, 2016, 2017 and the nine months ended December 31, 2017. Accordingly, no provision for Hong Kong profits tax was required. The payment of dividends by Hong Kong companies is not subject to any Hong Kong withholding tax.

### ***People's Republic of China***

Our subsidiaries operating in the PRC are subject to PRC taxes as described below:

*Enterprise income tax.* Effective from January 1, 2008, the EIT Law imposes a tax rate of 25% on all enterprises, including foreign-invested enterprises, and terminates many of the tax exemptions, reductions and preferential treatments available under previous tax laws and regulations. Under the EIT Law, qualified high-and-new technology enterprises eligible for key supports from the State ( HNTe ) are entitled to a preferential tax rate of 15% and subject to an annual review during the valid period of their HNTe certificates. If an HNTe enterprise no longer satisfies the related accreditation criteria, its certificate will be cancelled and it will cease to be entitled to the related tax incentives. In December 2008, ATA Testing was recognized as an HNTe and obtained an HNTe certificate, which entitled ATA Testing to a preferential tax rate of 15% for calendar years from 2008 to 2010. ATA Testing successfully renewed its HNTe certificate for another three years starting from 2011, and therefore was entitled to a preferential tax rate of 15% retroactively from January 1, 2011 to December 31, 2013. In October 2014, ATA Testing successfully renewed its HNTe certificate for another three years from 2014 and therefore was entitled to a preferential tax rate of 15% for calendar years 2014 to 2016. In October, 2017, ATA Testing successfully renewed its HNTe certificate for another three years from 2017. If ATA Testing meets all the requirements of HNTe, it will be entitled to a preferential tax rate of 15% for calendar years 2017 to 2019. In December 2009, each of ATA Learning, ATA Online and Muhua Shangce received approval from the tax authority that it qualified as an HNTe for three years, entitling them to a preferential income tax rate of 15% for calendar years 2009 to 2011. From May 2012 to July 2012, ATA Learning, ATA Online and Muhua Shangce successfully renewed their HNTe certificates, respectively, for another three years from 2012 and therefore were entitled to a preferential tax rate of 15% for calendar years 2012 to 2014. In November 2015, ATA Learning, ATA Online and Muhua Shangce successfully

renewed their HNTE certificates, respectively, for another three years from 2015 and therefore were entitled to a preferential tax rate of 15% for calendar years 2015 to 2017. ATA Online and Muhua Shangce are currently in the process of renewing their HNTE certificates for another three years. Upon successful renewal and meeting all the requirements of HNTE, these entities would be entitled to a preferential tax rate of 15% retroactively from January 1, 2018. In the event ATA Testing, ATA Online and Muhua Shangce are unable to renew their HNTE certificates and not meeting all the requirements of HNTE, they will be subject to the standard statutory enterprise income tax rate of 25%. See Item 3.D. Key Information Risk Factors Risks Relating to Regulations of Our Business The discontinuation of any of the preferential tax treatments currently enjoyed by our subsidiaries in the PRC could materially increase our tax obligations. Zhongxiao Zhixing Education Technology (Beijing) Limited ( Zhongxiao Zhixing ), a PRC subsidiary of Xing Wei, is subject to an income tax rate of 25%. Beijing Qihuang Huizhi Technology Co., Limited ( Qihuang Huizhi ) is also subject to an income tax rate of 25%.

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In addition, under the EIT Law, an enterprise established under the laws of a foreign country or region whose de facto management body is located within the PRC territory is considered a resident enterprise and will generally be subject to the enterprise income tax at the rate of 25% on its global income. According to the Implementation Rules to the EIT Law, de facto management body refers to a managing body that exercises, in substance, overall management and control over the production and business, personnel, accounting and assets of an enterprise. We have determined that our overseas entities are not PRC resident enterprises for PRC income tax purposes. However, if we and our overseas entities were considered PRC resident enterprises, we would be subject to the enterprise income tax at the rate of 25% on our global income. See Item 3.D. Key Information Risk Factors Risks Relating to Regulations of Our Business Under the EIT Law, we may be classified as a resident enterprise of China. Such classification will likely result in unfavorable tax consequences to us and U.S. holders of our ADSs or common shares, and Item 10.E.

Additional Information Taxation People's Republic of China Taxation.

In addition, since January 1, 2008, the EIT Law has revoked the exemption of withholding tax on dividends paid by a PRC enterprise to its foreign investors under the old tax law and its Implementation Rules provide that a withholding tax of 10% (or other applicable withholding tax rates based on tax treaties between the PRC and other jurisdictions) will generally be applicable to dividends payable to foreign investors. To the extent we and our overseas entities are not considered as PRC resident enterprises, the dividends that our PRC subsidiaries pay to us will be subject to this withholding tax. See Item 3.D. Key Information Risk Factors Risks Relating to Regulations of Our Business Under the EIT Law, we may be classified as a resident enterprise of China. Such classification will likely result in unfavorable tax consequences to us and U.S. holders of our ADSs or common shares. The undistributed earnings generated before January 1, 2008 shall be exempt from withholding tax when such earnings are distributed to foreign investors in the year 2008 or thereafter. As of December 31, 2017, we have accrued withholding tax of RMB 22,797,747 on undistributed earnings of RMB 227,977,473 generated by our PRC consolidated entities since January 1, 2008 as we have changed our plan with respect to distribution of earnings from our PRC subsidiaries and do not believe the indefinite reinvestment exception for not recognizing deferred tax liability is met. We announced declaration of a cash dividend of \$0.205 per common share, or \$0.41 per ADS on June 1, 2017. On December 21, 2017, the China Ministry of Finance ( MOF ), State Administration of Taxation ( SAT ), National Development and Reform Commission and Ministry of Commerce jointly released Cai Shui [2017] No.88 (the Notice ). The Notice formally introduces a tax measure which allows foreign investors to enjoy withholding tax ( WHT ) deferral treatment on the direct re-investment of profits distributed from Chinese tax resident enterprises into China's encouraged projects . If the foreign investor qualifies for the WHT deferral treatment, the Chinese subsidiary of the related foreign investor should submit the required documents to its tax authorities on behalf of the foreign investor. Upon completion of the filing, the Chinese subsidiary could suspend withholding the profits distributed to the foreign investor. According to the Notice, the WHT deferral treatment is applicable retroactively to January 1, 2017, and WHT payments already made on eligible re-investments are eligible for refund within three years of the WHT payment.

Under applicable Chinese tax laws, foreign-invested enterprises and domestic Chinese companies may carry forward tax losses up to five years. In view of cumulated losses noted by certain of our PRC subsidiaries and affiliated entities, as of December 31, 2017, we provided full valuation allowance for their deferred income tax assets after consideration of the scheduled reversal of existing deferred income tax liabilities.

*VAT pilot program and VAT exemption of offshore outsourcing services.* ATA Testing, ATA Learning, ATA Online and Muhua Shangce are subject to VAT at a rate of 6% for net revenues (i.e. VAT excluded) generated from services and license

fees under the VAT pilot program under which Business Tax was replaced by VAT since May 1, 2016. Zhongxiao Zhixing is subject to VAT at a rate of 3% since it is classified as a small scale VAT payer.

### **Critical Accounting Policies**

We prepare our consolidated financial statements in conformity with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amount of our assets and liabilities, disclosure of contingent assets and liabilities on the date of each set of consolidated financial statements and the reported amount of revenues and expenses during each financial reporting period. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates as a result of changes in our estimates or changes in the facts or circumstances underlying our estimates and assumptions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. Some of our accounting policies require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our consolidated financial statements as their application places the most significant demands on our management's judgment. When reviewing our consolidated financial statements, you should take into account:

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- our critical accounting policies discussed below;
- the related judgments made by us and other uncertainties affecting the application of these policies;
- the sensitivity of our reported results to changes in prevailing facts and circumstances and our related estimates and assumptions; and
- the risks and uncertainties described under Item 3.D. Key Information Risk Factors.

See Note (2) to our audited consolidated financial statements for additional information regarding our significant accounting policies.

***Bad Debt Allowance***

We perform ongoing credit evaluations of our customers' financial conditions and generally do not require collateral on accounts receivable.

The activity in the allowance for doubtful accounts for accounts receivable for the fiscal years ended March 31, 2016, 2017 and the nine months ended December 31, 2017 is as follows:

	For the fiscal year ended March 31,		For the nine months ended December 31, 2017	
	2016 RMB	2017 RMB	RMB	US\$
Beginning allowance for doubtful accounts	5,003,118	4,875,266	5,399,726	829,923
Additions charged to (reversal of) provision for doubtful accounts	(127,852)	524,460	1,363,506	209,567
Write-off of accounts receivable			(3,808,694)	(585,386)
Ending allowance for doubtful accounts	4,875,266	5,399,726	2,954,538	454,104

***Income Taxes***



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We assess the likelihood that our net deferred income tax assets will be realized. To the extent that we believe that it is more likely than not that some portion or the entire amount of deferred income tax assets will not be realized, we establish a valuation allowance.

In assessing the realizability of deferred income tax assets, we consider whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible or tax loss carried forward are utilized. We consider the scheduled reversal of deferred income tax liability, projected future taxable income and tax planning strategies in making this assessment.

As of December 31, 2017, we believe it is more likely than not that we will realize the deferred income tax assets, net of the valuation allowance of RMB 53.6 million (\$8.2 million). The amount of the deferred income tax assets considered realizable as of December 31, 2017 could be reduced in the near term if estimates of future taxable income are reduced.

For each of the fiscal years ended March 31, 2016, 2017 and the nine months ended December 31, 2017, we had no unrecognized tax benefits relating to uncertain tax positions. Also, we do not expect that the amount of unrecognized tax benefits will significantly increase within the next twelve months.

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by taxpayers or withholding agents. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than RMB 100,000. In the case of transfer pricing issues, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The income tax return of each of our company's PRC consolidated entities is subject to examination by the relevant tax authorities for the calendar tax years beginning in 2013.

### *Share-based payment*

We measure the cost of employee share options or similar equity instruments based on the grant date fair value of the award and recognize that cost over the period during which an employee is required to provide services in exchange for the award, which generally is the vesting period. When no future services are required to be performed by an employee in exchange for an award of equity instruments, and if such award does not contain a performance or market condition, the cost of the award is expensed on the grant date. When there is a modification on the terms and conditions of an award of equity instruments, our company measures the pre-modification and post-modification fair value of the equity instruments as of the modification date and recognizes the incremental value as compensation cost over the remaining service period.

When there is a change in the grantee status from an employee to a non-employee, if the grantee retains the awards on a change in status and continues to provide substantive services to our company, the change in status results in a new measurement date for the unvested awards with compensation costs measured as if the awards were newly issued to the grantee on the date of the change in status. If the grantee retains the awards on a change in status and is not required to provide substantive services to the grantor subsequent to that change in status, the change in status is, in substance, an acceleration in vesting of the arrangement.



Table of Contents***Long-term investments***

*Equity method investments.* An investment in common stock or in-substance common stock of an entity where we can exercise significant influence, but not control, is accounted for using the equity method. Under the equity method, the investment is initially recorded at cost and adjusted for our share of undistributed earnings or losses of the investees. Investment losses are recognized until the investment is fully written down as we do not guarantee the investee's obligations nor are we committed to provide additional funding. When our carrying value in an equity method investment is reduced to zero, no further losses are recorded in our consolidated financial statements unless we guarantee obligations of an affiliated company or have committed additional funding. When the equity method accounted investee subsequently reports income, we will not record our share of such income until it exceeds the amount of our share of losses not previously recognized.

*Cost method investments.* Equity investments in an investee that are not considered as debt securities or equity securities that do not have readily determinable fair values and over which we have no significant influence nor control, is accounted for using the cost method. Under the cost method, the investments are initially recorded at cost and recognized with income when any dividends are declared for distribution from investee's earnings.

*Available-for-sale investment.* Available-for-sale investment is an investment in convertible notes measured at fair value with unrealized gains and losses recorded in accumulated other comprehensive income.

We regularly evaluate the impairment of the long-term investments based on performance and financial position of the investees, as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee's cash position, recent financings, projected and historical financial performance, cash flow forecasts and financing needs. An impairment charge is recorded when carrying amount of the investment exceeds its fair value and such condition is determined to be other than temporary.

**Results of Operations**

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations and with each item expressed as a percentage of our total net revenues. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

For the fiscal year ended March 31,				For the nine months ended December 31,				
2016		2017		2016		2017		
RMB	% of net revenues	RMB	% of net revenues	RMB	% of net revenues	RMB	US\$	% of net revenues
(Unaudited)								
(In thousands, except for percentages)								

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Net revenues:									
Testing services	384,800	92.2%	430,057	91.0%	402,549	92.4%	453,225	69,660	92.5%
Online education services	4,897	1.2%	7,462	1.6%	7,070	1.6%	6,553	1,007	1.3%
Other	27,443	6.6%	34,867	7.4%	25,817	6.0%	30,281	4,654	6.2%
<b>Total net revenues</b>	<b>417,140</b>	<b>100.0%</b>	<b>472,386</b>	<b>100.0%</b>	<b>435,436</b>	<b>100.0%</b>	<b>490,059</b>	<b>75,321</b>	<b>100.0%</b>
Cost of revenues	208,017	49.9%	239,853	50.8%	218,885	50.3%	259,050	39,816	52.9%
<b>Gross profit</b>	<b>209,123</b>	<b>50.1%</b>	<b>232,533</b>	<b>49.2%</b>	<b>216,551</b>	<b>49.7%</b>	<b>231,009</b>	<b>35,505</b>	<b>47.1%</b>
Operating expenses:									
Research and development	36,529	8.8%	43,430	9.2%	33,320	7.7%	37,928	5,829	7.7%
Sales and marketing	42,646	10.2%	47,824	10.1%	37,247	8.6%	42,377	6,513	8.6%
General and administrative	78,341	18.8%	69,078	14.7%	50,276	11.5%	79,832	12,270	16.3%
Provision for (reversal of) doubtful accounts	(128)	0%	694	0.1%	(1)	(0.0)%	1,364	210	0.3%
<b>Total operating expenses</b>	<b>157,388</b>	<b>37.8%</b>	<b>161,026</b>	<b>34.1%</b>	<b>120,842</b>	<b>27.8%</b>	<b>161,501</b>	<b>24,822</b>	<b>32.9%</b>
<b>Income from operations</b>	<b>51,375</b>	<b>12.3%</b>	<b>71,507</b>	<b>15.1%</b>	<b>95,709</b>	<b>21.9%</b>	<b>69,508</b>	<b>10,683</b>	<b>14.2%</b>
Share of losses of equity method investments	(8,829)	(2.1)%	(16,121)	(3.4)%	(11,869)	(2.7)%	(1,878)	(289)	(0.4)%
Impairment loss of long-term investments			(32,199)	(6.7)%	(21,905)	(5.1)%	(15,217)	(2,339)	(3.2)%
Gain from disposal of long-term investments			1,600	0.3%	1,600	0.4%	3,244	499	0.7%
Interest income, net of interest expenses	3,573	0.9%	3,914	0.8%	2,480	0.6%	1,805	277	0.4%
Foreign currency exchange gains (losses), net	(1,506)	(0.4)%	(73)	(0.0)%	(75)	(0.0)%	(217)	(33)	(0.0)%
<b>Earnings before income taxes</b>	<b>44,973</b>	<b>10.7%</b>	<b>28,628</b>	<b>6.1%</b>	<b>65,940</b>	<b>15.1%</b>	<b>57,245</b>	<b>8,798</b>	<b>11.7%</b>
Income tax expense	18,922	4.5%	38,597	8.2%	21,996	5.0%	29,408	4,520	6.0%
<b>Net income (loss)</b>	<b>26,051</b>	<b>6.2%</b>	<b>(9,969)</b>	<b>(2.1)%</b>	<b>43,944</b>	<b>10.1%</b>	<b>27,837</b>	<b>4,278</b>	<b>5.7%</b>
Net loss attributable to non-redeemable non-controlling interests			(253)	(0.0)%	(34)	(0.0)%	(352)	(54)	(0.0)%
Net loss attributable to redeemable non-controlling interests							(1,445)	(223)	(0.3)%
<b>Net income (loss) attributable to ATA Inc.</b>	<b>26,051</b>	<b>6.2%</b>	<b>(9,716)</b>	<b>(2.1)%</b>	<b>43,978</b>	<b>10.1%</b>	<b>29,634</b>	<b>4,555</b>	<b>6.0%</b>

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	For the fiscal year ended March 31,		For the nine months ended December 31,		
	2016	2017	2016	2017	
	RMB	RMB	(Unaudited) RMB	RMB	US\$
Basic and diluted earnings (loss) per common share	0.57	(0.21)	0.96	0.48	0.07

**Nine Months Ended December 31, 2017 Compared to Nine Months Ended December 31, 2016*****Net Revenues***

Our total net revenues increased by RMB 54.7 million, or 12.5%, to RMB 490.1 million (\$75.3 million) in the nine months ended December 31, 2017 from RMB 435.4 million in the nine months ended December 31, 2016, primarily as a result of an increase in net revenues from testing services.

*Testing services.* Testing services net revenues increased by RMB 50.7 million, or 12.6%, to RMB 453.2 million (\$69.7 million) in the nine months ended December 31, 2017 from RMB 402.5 million in the nine months ended December 31, 2016, primarily due to the increased number of tests taken for certain large existing exams, including National Unified Certified Public Accountants Exam and National Tax Adviser Occupational Qualification Exam, the National Tour Guide Qualification Exam and Housing and Urban-Rural Construction Field Professionals Qualification Exam, and the increase in volume of certain new exams, including the National Real Estate Broker Associate Qualification Exam and the National Tax System Tax Staff Enforcement Qualification Test. Our net revenues from testing services provided to National Unified Certified Public Accountants Exam, National Tax Adviser Occupational Qualification Exam, National Tour Guide Qualification Exam and Housing and Urban-Rural Construction Field Professionals Qualification Exam, in aggregate, increased from RMB 123.6 million in the nine months ended December 31, 2016 to RMB 163.7 million (\$25.2 million) in the nine months ended December 31, 2017. We generated RMB 6.5 million (\$1.0 million) net revenues, in aggregate, from the above-stated newly provided exams in the nine months ended December 31, 2017. The increase was partially offset by the decrease of exam volume for the Fund Practitioner Certification Exam and Certification of China Banking Professionals Exam which, in aggregate, contributed revenue of RMB 116.8 million (\$18.0 million) in the nine months ended December 31, 2017 compared with revenue of RMB 134.8 million in the nine months ended December 31, 2016. The total number of billable tests delivered increased to 12,345,481 in the nine months ended December 31, 2017 from 11,414,653 in the nine months ended December 31, 2016.

*Online education services.* Our revenues from online education services decreased by RMB 0.5 million, or 7.3%, to RMB 6.6 million (\$1.0 million) in the nine months ended December 31, 2017 from RMB 7.1 million in the nine months ended December 31, 2016, primarily due to revenue decrease from the online education services provided to China Futures Association, which was partially offset by revenues realized from the online education services provided to AMAC, a new project launched during the transition period.

*Other revenues.* Other revenues increased by RMB 4.5 million, or 17.3%, to RMB 30.3 million (\$4.7 million) in the nine months ended December 31, 2017 from RMB 25.8 million in the nine months ended December 31, 2016, primarily due to an increase in revenue derived from services delivered in relation to new projects, primarily the National and Local Tax Law Knowledge Contest held in various cities and provinces in China of RMB 5.1 million and an increase in revenue derived from services delivered in relation to K-12 education assessments of RMB 1.0 million.

***Gross Profit***

Our gross profit increased by RMB 14.4 million, or 6.7%, to RMB 231.0 million (\$35.5 million) in the nine months ended December 31, 2017 from RMB 216.6 million in the nine months ended December 31, 2016. Our gross margin decreased to 47.1% in the nine months ended December 31, 2017 from 49.7% in the nine months ended December 31, 2016. The decrease in gross margin was primarily due to increased test monitoring costs, as well as increased licensing fees and higher share-based compensation expenses related to new share options and restricted shares issued in January 2017.

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***Operating Expenses***

*General and administrative expenses.* Our general and administrative expenses increased by RMB 29.5 million, or 58.8%, to RMB 79.8 million (\$12.3 million) in the nine months ended December 31, 2017 from RMB 50.3 million in the nine months ended December 31, 2016, primarily due to increase in (i) consulting fees associated with investing and financing activities during the transition period of RMB 12.2 million, (ii) RMB 10.0 million expenditure relating to the Tsinghua University academic project; and (iii) share-based compensation expenses of RMB 5.1 million.

*Sales and marketing expenses.* Our sales and marketing expenses increased by RMB 5.2 million, or 13.8%, to RMB 42.4 million (\$6.5 million) in the nine months ended December 31, 2017 from RMB 37.2 million in the nine months ended December 31, 2016, primarily due to the increased labor costs of our sales and marketing personnel of RMB 3.8 million in relation to our

de-centralization initiatives and share-based compensation expenses of RMB 2.3 million. Sales and marketing expenses as a percentage of our total net revenues remained consistent at 8.6% in the nine months ended December 31, 2017 and the nine months ended December 31, 2016.

*Research and development expenses.* Our research and development expenses increased by RMB 4.6 million, or 13.8%, to RMB 37.9 million (\$5.8 million) in the nine months ended December 31, 2017 from RMB 33.3 million in the nine months ended December 31, 2016, primarily due to the increased labor costs of RMB 4.3 million and the increased share-based compensation expenses of RMB 2.9 million.

*Provision for doubtful accounts.* The accrual of bad debt expenses was RMB 1.4 million (\$0.2 million) in the nine months ended December 31, 2017, compared to reversal of certain bad debt expenses in the nine months ended December 31, 2016, primarily due to the reversal of certain long aging receivables collected during the nine months ended December 31, 2016.

***Impairment Loss of long-term investments***

We recorded an impairment loss of RMB 15.2 million (\$2.3 million) in the nine months ended December 31, 2017 related to the impairment charges associated with one of our strategic investments, which encountered severe shortage of working capital resulted from continuous negative operating cash flows and turnover of key personnel in the fourth quarter of 2017.

***Interest Income***

Our interest income decreased to RMB 1.8 million (\$0.3 million) in the nine months ended December 31, 2017 from RMB 2.5 million in the nine months ended December 31, 2016, primarily due to the average cash balance decrease compared to prior period, as a result of the cash dividend payout in June and July 2017.

***Foreign Currency Exchange Gains (Losses), Net***

Our net foreign currency exchange losses primarily reflect the foreign exchange fluctuation effects of exchanging from Renminbi to U.S. dollar. We recorded a net foreign currency exchange loss of RMB 0.2 million (\$0.03 million) in the nine months ended December 31, 2017, compared to a net loss of RMB 0.1 million in the nine months ended December 31, 2016.

***Income Tax Expense***

We had income tax expense of RMB 29.4 million (\$4.5 million) in the nine months ended December 31, 2017, compared to RMB 22.0 million in the nine months ended December 31, 2016. The increase in our income tax expense was primarily due to the increase of withholding tax accrual in connection with the undistributed earnings generated by our PRC consolidated entities for the nine months ended December 31, 2017.

***Net Income***

As a result of the above factors, we had net income of RMB 27.8 million (\$4.3 million) in the nine months ended December 31, 2017, compared to net income of RMB 43.9 million in the nine months ended December 31, 2016. The decline in net income was primarily due to increased labor costs and share-based compensation expenses of RMB 21.5 million, consulting fees increase associated with investing and financing activities during the transition period of RMB 12.2 million, RMB 10.0 million expenditure relating to the Tsinghua University academic project, and income tax expense increase of RMB 7.4 million, which was offset by the increase of gross profit of RMB 14.4 million and investment and impairment loss decrease of RMB 16.7 million.

We had a basic earnings per common share and diluted earnings per common share of RMB 0.48 (\$0.07) and RMB 0.48 (\$0.07) in the nine months ended December 31, 2017 compared to a basic earnings per common share and diluted earnings per common share of RMB 0.96 and RMB 0.96 in the nine months ended December 31, 2016.

**Fiscal Year Ended March 31, 2017 Compared to Fiscal Year Ended March 31, 2016**



*Net Revenues*

Our total net revenues increased by RMB 55.3 million, or 13.2%, to RMB 472.4 million in the fiscal year ended March 31, 2017 from RMB 417.1 million in the fiscal year ended March 31, 2016, primarily as a result of an increase in net revenues from testing services.

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*Testing services.* Testing services net revenues increased by RMB 45.3 million, or 11.8%, to RMB 430.1 million in the fiscal year ended March 31, 2017 from RMB 384.8 million in the fiscal year ended March 31, 2016, primarily due to the increased number of tests taken for certain large existing exams, including CICPA and AMAC, the addition of the National Tour Guide Qualification Exam and Housing and Urban-Rural Construction Field Professionals Qualification Exam, and the increase in volume of certain other exams. Our net revenues from testing services provided to CICPA and AMAC, in aggregate, increased from RMB 99.7 million in the fiscal year ended March 31, 2016 to RMB 178.1 million in the fiscal year ended March 31, 2017. We generated RMB 16.2 million net revenues, in aggregate, from our newly provided testing services for the National Tour Guide Qualification Exam and Housing and Urban-Rural Construction Field Professionals Qualification Exam in the fiscal year ended March 31, 2017. The increase was partially offset by the loss of our Securities Association of China exam, which contributed revenue of RMB 67.0 million in the fiscal year ended March 31, 2016. The total number of billable tests delivered increased to 12,127,203 in the fiscal year ended March 31, 2017 from 10,258,866 in the fiscal year ended March 31, 2016.

*Online education services.* Our revenues from online education services increased by RMB 2.6 million, or 52.4%, to RMB 7.5 million in the fiscal year ended March 31, 2017 from RMB 4.9 million in the fiscal year ended March 31, 2016, primarily due to an increase in revenue from our online education services provided for certain large customers.

*Other revenues.* Other revenues increased by RMB 7.5 million, or 27.1%, to RMB 34.9 million in the fiscal year ended March 31, 2017 from RMB 27.4 million in the fiscal year ended March 31, 2016, primarily due to (i) an increase in revenue derived from services delivered in relation to the National Tour Guide Qualification Exam of RMB 4.1 million and (ii) an increase in rental income of RMB 0.6 million.

***Gross Profit***

Our gross profit increased by RMB 23.4 million, or 11.2%, to RMB 232.5 million in the fiscal year ended March 31, 2017 from RMB 209.1 million in the fiscal year ended March 31, 2016. Our gross margin decreased to 49.2% in the fiscal year ended March 31, 2017 from 50.1% in the fiscal year ended March 31, 2016. The decrease in gross margin was primarily due to increased labor costs associated with salary increases by RMB 4.6 million, as well as a change in revenue mix.

***Operating Expenses***

Our operating expenses increased by RMB 3.6 million, or 2.3%, to RMB 161.0 million in the fiscal year ended March 31, 2017 from RMB 157.4 million in the fiscal year ended March 31, 2016.

*General and administrative expenses.* Our general and administrative expenses decreased by RMB 9.2 million, or 11.8%, to RMB 69.1 million in the fiscal year ended March 31, 2017 from RMB 78.3 million in the fiscal year ended March 31, 2016, primarily due to a decrease in (i) tax expenses and professional services fees incurred in connection with the reorganization of ATA Online in preparation for its New Third Board listing of RMB 8.1 million, (ii) share-based compensation expenses of RMB 3.5 million.

*Sales and marketing expenses.* Our sales and marketing expenses increased by RMB 5.2 million, or 12.1%, to RMB 47.8 million in the fiscal year ended March 31, 2017 from RMB 42.6 million in the fiscal year ended March 31, 2016, primarily due to increased expenses of RMB 3.4 million we incurred as a result of our enhanced pre-sales marketing and promotion efforts and increased labor costs of our marketing personnel of RMB 1.4 million. Sales and marketing expenses as a percentage of our total net revenues decreased slightly to 10.1% in the fiscal year ended March 31, 2017 from 10.2% in the fiscal year ended March 31, 2016.

*Research and development expenses.* Our research and development expenses increased by RMB 6.9 million, or 18.9%, to RMB 43.4 million in the fiscal year ended March 31, 2017 from RMB 36.5 million in the fiscal year ended March 31, 2016, primarily due to the increased labor costs of RMB 4.4 million we paid to our research and development personnel and consultants relating to our new K-12 initiatives of RMB 1.5 million.

*Provision for doubtful accounts.* The accrual of bad debt expenses was RMB 0.7 million in the fiscal year ended March 31, 2017, compared to reversal of bad debt expenses of RMB 0.1 million in the fiscal year ended March 31, 2016, primarily due to the reversal of the collection of certain long aging receivable during the fiscal year ended March 31, 2016.

#### ***Impairment Loss of long-term investments***

We recorded an impairment loss of RMB 32.2 million in the fiscal year ended March 31, 2017 related to our investments in certain companies providing online education and K-12 related services, which failed to meet the expected milestones and operation forecasts and encountered shortage of working capital resulted from continuous negative operating cash flows.

#### ***Interest Income***

Our interest income increased to RMB 3.9 million in the fiscal year ended March 31, 2017 from RMB 3.6 million in the fiscal year ended March 31, 2016, primarily due to an average cash balance increase compared to the prior year.

#### ***Foreign Currency Exchange Gains (Losses), Net***

Our net foreign currency exchange losses primarily reflect the effects of exchanging from Renminbi to U.S. dollar and devaluation of Renminbi against U.S. dollar in relation to the re-measurement of Renminbi denominated bank deposits held by overseas entities, whose functional currency is U.S. dollar. We recorded a net foreign currency exchange loss of RMB 0.1 million in the fiscal year ended March 31, 2017, compared with a net loss of RMB 1.5 million in the fiscal year ended March 31, 2016. The decrease in foreign exchange loss was primarily because a large amount of Renminbi was exchanged for U.S. dollar at our overseas bank accounts for long term investments in the fiscal year ended March 31, 2016, while no such exchange occurred in the fiscal year ended March 31, 2017.

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***Income Tax Expense***

We had income tax expense of RMB 38.6 million in the fiscal year ended March 31, 2017, compared to RMB 18.9 million in the fiscal year ended March 31, 2016. The increase in our income tax expense was primarily due to an accrual of withholding tax of RMB 22.6 million in connection with all undistributed earnings generated by our PRC consolidated entities since January 1, 2008 as we do not believe the permanent reinvestment exception for not recognizing deferred tax liability is met due to changes to our investment plan.

***Net Loss***

As a result of the above factors, we had net loss of RMB 10.0 million in the fiscal year ended March 31, 2017, compared to net income of RMB 26.1 million in the fiscal year ended March 31, 2016. The loss was primarily due to an accrual of RMB 22.6 million withholding taxes in connection with all undistributed earnings of PRC subsidiaries since January 1, 2008, as well as impairment losses of RMB 32.2 million and investment losses of RMB 16.1 million associated with certain strategic investments. The loss was offset by the increase of gross profit of RMB 23.4 million, driven by the robust revenue increase of RMB 55.3 million.

We had a basic loss per common share and diluted loss per common share of RMB 0.21 and RMB 0.21 in the fiscal year ended March 31, 2017 compared to a basic earnings per common share and diluted earnings per common share of RMB 0.57 and RMB 0.57 in the fiscal year ended March 31, 2016.

**B. Liquidity and Capital Resources**

We have financed our working capital and capital expenditure requirements primarily through cash generated from operating activities.

As of December 31, 2017, we had RMB 256.1 million (\$39.4 million) in cash. Our cash and cash equivalents were primarily deposited with reputable banks in China and Hong Kong. We intend to finance our future additional working capital and capital expenditure needs principally from (i) cash generated from operating activities, and (ii) cash received from selling ATA Online.

We believe our current cash and expected future cash flows from operating activities, particularly from testing services and online education services, and our proceeds from the sale of ATA Online, are sufficient to meet our present working capital requirements. Our current expansion plans do not require significant capital commitments. We do not expect our short-term and long-term cash requirements to be materially different. If any future projects would require additional funding, outside financing might be pursued as needed. Nevertheless, we may require additional sources of liquidity in the event of changes in business conditions or other future developments. Factors affecting our sources of liquidity include our sales performance and changes in working capital. Any changes in the significant factors affecting our revenues from testing services and online education services may cause material fluctuations in our cash generated from operations. See Item 5.A. Operating and Financial Review and Prospectus Operating Results Net Revenues for a description of these significant factors. Changes in working capital,

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including any significant shortening or lengthening of our accounts receivable cycle or client prepayment cycles, may also cause fluctuations in our cash generated from operations. If our sources of liquidity are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities to meet our cash needs. The sale of convertible debt securities or additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

The following table summarizes our net cash flows with respect to operating activities, investing activities and financing activities in the fiscal years ended March 31, 2016, 2017 and the nine months ended December 31, 2017:

	For the fiscal year ended March 31,		For the nine months ended December 31,	
	2016 RMB	2017 RMB	RMB	US\$
	(In thousands)			
Net cash provided by operating activities	64,505	61,545	95,606	14,694
Net cash used in investing activities	(36,801)	(93,952)	(20,604)	(3,167)
Net cash provided by (used in) financing activities	(20,310)	7,250	(40,149)	(6,171)
Effect of foreign exchange rate changes on cash	(21)	(63)	(1,210)	(186)
Net increase (decrease) in cash	7,373	(25,220)	33,643	5,170
Cash and cash equivalents at beginning of the period	240,295	247,668	222,448	34,190
Cash and cash equivalents at end of the period	247,668	222,448	256,091	39,360

### *Operating Activities*

Net cash provided by operating activities was RMB 95.6 million (\$14.7 million) in the nine months ended December 31, 2017, mainly attributable to cash collection from revenues of RMB 447.0 million, partially offset by cash paid for test monitoring costs and royalty fees of RMB 169.0 million and cash paid for payroll and other operating expenses of RMB 182.4 million.

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Net cash provided by operating activities was RMB 61.5 million in the fiscal year ended March 31, 2017, mainly attributable to cash collection from revenues of RMB 462.5 million, partially offset by cash paid for test monitoring costs and royalty fees of RMB 166.6 million and cash paid for payroll and other operating expenses of RMB 234.4 million.

Net cash provided by operating activities was RMB 64.5 million in the fiscal year ended March 31, 2016, mainly attributable to cash collection from revenues of RMB 412.8 million, partially offset by cash paid for test monitoring costs and royalty fees of RMB 145.4 million and cash paid for payroll and other operating expenses of RMB 202.9 million.

***Investing Activities***

Net cash used in investing activities in the nine months ended December 31, 2017 of RMB 20.6 million (\$3.2 million) was primarily attributable to RMB 31.1 million expenditures made for intangible assets, properties and equipment and RMB 5.5 million cash invested in EEO, which was offset by RMB 10.0 million cash received from the nominee shareholders of ATA Online in connection with the termination of the VIE agreements and proceeds of RMB 6.6 million received from the disposal of certain affiliated subsidiaries and investments.

Net cash used in investing activities in the fiscal year ended March 31, 2017 of RMB 94.0 million was primarily attributable to payments of RMB 89.9 million made for long-term investments and payments of RMB 9.9 million made for capital expenditures, partially offset by proceeds of RMB 5.5 million received from the disposal of certain equity interests of an affiliate company.

Net cash used in investing activities in the fiscal year ended March 31, 2016 of RMB 36.8 million was primarily attributable to equity investments and amounts due from shareholders of RMB 10.0 million in connection with the termination of the VIE agreements (see the discussion in Note (19) of the consolidated financial statements included in this transition report). Amounts due from shareholder were received in full in June 2017.

***Financing Activities***

Net cash used by financing activities in the nine months ended December 31, 2017 of RMB 40.1 million (\$6.2 million) was primarily attributable to the special cash dividend payment of RMB 65.7 million, which was offset by RMB 30.0 million cash received from release of restricted cash for financial standby letter of credit .

Net cash provided by financing activities in the fiscal years ended March 31, 2017 of RMB 7.3 million was primarily attributable to RMB 34.0 million investment prepayments made by third-party investors to one of our subsidiaries and RMB 3.4 million cash received from a short-term loan ATA BVI borrowed during the year, which was partially offset by RMB 30.0 million cash paid as collateral for a financial standby letter of credit. In June 2017, the short-term loan ATA BVI borrowed was fully repaid and the RMB 30.0 million cash paid as collateral for a financial

standby letter of credit was released back to the Company.

Net cash used in financing activities in the fiscal years ended March 31, 2016 of RMB 20.3 million was primarily attributable to repurchases of common shares.

## Capital Expenditures

The following table sets forth our historical capital expenditures for the periods indicated. Actual future capital expenditures may differ from the amounts indicated below.

	For the fiscal year ended March 31,		For the nine months ended December 31,	
	2016 RMB	2017 RMB	RMB	US\$
	(In thousands)			
Total capital expenditures	3,087	9,932	31,060	4,774

Historically, our capital expenditures have been made primarily for the purchase of office space, leasehold improvements, software, computer equipment, servers, license and education assessment test caseware.

## Foreign Currency Exchange

ATA Inc., ATA BVI and Xing Wei's functional currency is U.S. dollar. As of December 31, 2017, we had RMB 256.1 million (\$39.4 million) in cash and cash equivalents. The functional currency of our PRC subsidiaries is Renminbi. The non-Renminbi portion of our revenues primarily consists of U.S. dollar-denominated licensing fees and royalty payments, while the non-Renminbi portion of our expenditures primarily consists of professional fees and royalty payments, either denominated in U.S. dollars or Hong Kong dollars. Fluctuations in exchange rates, primarily those involving the U.S. dollar against the Renminbi, may affect our costs and operating margins and reported operating results. Under the current foreign exchange system in China, our operations in China may not be able to hedge effectively against currency risks, including any possible future Renminbi devaluation. See Item 3.D. Key Information Risk Factors Risks Relating to Doing Business in the People's Republic of China Fluctuations in exchange rates could result in foreign currency exchange losses.



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**Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standard Update ( ASU ) No. 2014-09, *Revenue from Contracts with Customers*. This ASU requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In December 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers*, which deferred the effective date of ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The new standard is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted for annual reporting periods beginning after December 15, 2016. The new revenue standard may be applied retrospectively to each prior period presented ( full retrospective method ) or retrospectively with the cumulative effect recognized as of the date of adoption ( modified retrospective method ).

We plan to apply the modified retrospective method starting from January 1, 2018. We conducted a review and evaluation over all the contracts that are not completed on January 1, 2018 and concluded that there is no material impact on our retained earnings as of January 1, 2018 and consolidated financial statements in fiscal year 2018 as a result of the new adoption of the guidance.

In February 2016, the FASB issued ASC Topic 842, *Leases* through ASU No. 2016-02. ASC Topic 842 requires a lessee to recognize all leases, including operating leases, on balance sheet via a right-of-use asset and lease liability, unless the lease is a short-term lease. All (or a portion of) fixed payments by the lessee to cover lessor costs related to ownership of the underlying assets, or executory costs, that do not represent payments for a good or service will be considered lease payments and reflected in the measurement of lease assets and lease liabilities by lessees. The new standard does not substantially change lessor accounting from current U.S. GAAP. The new standard also requires lessees and lessors to disclose more qualitative and quantitative information about their leases than current U.S. GAAP does. The standard is applied retrospectively, with elective reliefs. The new standard is effective for annual and interim reporting periods beginning after December 15, 2018 for a public business entity. Early adoption is permitted. We are currently evaluating the impact ASU No. 2016-02 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments*, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We evaluated the impact of ASU No. 2016-15 and does not expect the adoption of ASU No. 2016-15 will have material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows - Restricted cash*. This ASU requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, adjustments should be reflected at the beginning of the fiscal year that includes that interim period. The amendments in this ASU should be applied using a retrospective transition method to each period presented. We evaluated the impact of ASU No. 2016-18 and determined to fully adopt the new standards starting from January 1, 2018 and will apply a retrospective transition method to each period presented .

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance is effective for financial statements issued for fiscal year beginning after December 15, 2017 on a prospective basis, and early adoption is permitted. We do not expect the adoption of ASU No. 2017-01 will have material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment*. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 of the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. As a result of ASU No. 2017-04, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and then recognize an impairment charge, as necessary, for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. ASU No. 2017-04 is effective for fiscal years and interim periods within those years beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. We are currently evaluating the impact ASU No. 2017-04 will have on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock compensation (Topic 718): Scope of modification accounting* (ASU 2017-09). The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. For all entities that offer share-based payment awards, ASU No. 2017-09 are effective for interim and annual reporting periods beginning after December 15, 2017. We evaluated the impact of ASU No. 2017-09 and does not expect the adoption of ASU No. 2017-09 will have material impact on its consolidated financial statements.

#### **C. Research and Development, Patents and Licenses, Etc.**

Research and development are important to our continued success. Our research and development initiatives are designed to improve our existing testing technologies and to develop new and innovative technologies. We conduct our research and development activities primarily in-house but may also from time to time outsource certain research and development activities. We have an experienced team of engineers with expertise in the fields of computing, software, test system design and conversion. Our research and development team consisted of 156 people as of December 31, 2017. We will continue to look selectively for experienced software engineers and other technology talents to further increase our technological capabilities. While we focus on development of technologies that can be commercialized and integrated into our service offerings in the short term, we also invest in the research and development of testing technologies for the medium and long term in preparation for the next generation and cutting-edge products and services. In addition, we are developing upgrades of our key technologies, including our E-testing, MTS, EzTest and EzInterview platforms. Our total expenses for research and development were RMB 36.5 million, RMB 43.4 million, RMB 33.3 million and RMB 37.9 million (\$5.8 million) in the fiscal years ended March 31, 2016, 2017 and the nine months ended December 31, 2016 and 2017, respectively.

Table of Contents**D. Trend Information**

Other than as disclosed elsewhere in this transition report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from April 1, 2015 to December 31, 2017 that are reasonably likely to have a material adverse effect on our revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

**E. Off-Balance Sheet Arrangements**

We do not currently have, and do not expect in the future to have, any off-balance sheet arrangements or commitments. In our ongoing business, we do not plan to enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships established for the purpose of facilitating off-balance sheet arrangements or commitments.

**F. Tabular Disclosure of Contractual Obligations****Contractual Obligations and Commercial Commitments**

The following table sets forth our contractual obligations as of December 31, 2017:

	Total	Within 1 Year	Payment Due 1-3 Years (In thousands of RMB)	3-5 Years	More than 5 Years
Operating Lease Obligations (1)	36,583	16,285	20,298		
Other commitments (2)	54,558	16,988	26,306	11,264	

(1) Our operating lease obligations comprise our office lease obligations for our offices in China. These office leases expire at different times over the period from the date of this transition report through September 2020, and will become subject to renewal. We will evaluate the need to renew each office lease on a case-by-case basis prior to its expiration.

(2) On August 11, 2011, we entered into an agreement with a vendor who granted us a license to distribute the vendor's test related products in Mainland China for 10 years. Each party may terminate this agreement at any time for any reason by giving the other party not less than twelve months written notice provided that the termination date may not be before the fifth anniversary of this agreement unless either party is in breach of this agreement. On April 27,

2017, we entered into a five-year agreement with Tsinghua University, under which ATA will support the research of the Research Institute of Future Education and Assessment at Tsinghua University under certain circumstances with funding support of RMB 50 million, out of which RMB 40 million will be paid in the following four years. On August 25, 2017, we entered into an agreement to purchase computers and accessories with payments to be made in four years since 2018.

#### **Indebtedness**

As of the date of this transition report, we do not have any outstanding debt, debt securities, contingent liabilities, mortgages, or liens.

#### **G. Safe Harbor**

This transition report contains 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 as defined in the Private Securities Litigation Reform Act of 1995. See Introduction Forward-Looking Statements.

### **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

#### **A. Directors and Senior Management**

The following table sets forth certain information relating to our directors and executive officers as of the date of this transition report. The business address of each of our directors and executive officers is 1/F East Gate, Building No. 2, Jian Wai Soho, No. 39 Dong San Huan Zhong Road, Chao Yang District, Beijing 100022, China.

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Name	Age	Position
Kevin Xiaofeng Ma	54	Chairman of the Board of Directors and Chief Executive Officer
Jack Huang	46	President and Director
Andrew Yan	60	Director
Hope Ni	45	Director
Alec Tsui	68	Director
Zhilei Tong	43	Director
Amy Tung	46	Chief Financial Officer
Alex Tong	55	Vice President of Business Development

*Kevin Xiaofeng Ma* is co-founder, chairman of the board and chief executive officer of our company. He also serves as chairman on the board of directors of ATA Online. Prior to co-founding our company, Mr. Ma co-founded Dynamic Technology Corporation and served as its chief executive officer from 1996 to 1998. From 1990 to 1996, Mr. Ma served as a general manager in the Hainan High-Tech Industry International Cooperation Center. Previously, Mr. Ma gained experience as a vice president at the Beijing MIDI High-Tech Center, as a director of Beijing Zhongjia Integrated Intelligent System Engineering, and as a reporter for China Radio International. Mr. Ma is a member of the board of directors of a number of private enterprises with operations in China, which do not compete with our business. Mr. Ma graduated from Nanjing University with a bachelor's degree in economics.

*Jack Huang* is the president and a director of our company. Prior to joining us, Mr. Huang was the chief executive officer of Lanxum Education, an online education and information security services provider in China, from 2015 to 2017. Prior to this, Mr. Huang worked at Chegg where he served as head of Chegg's China operations, and Pearson where he served as the managing director of the Language Testing Division in the Asia Pacific region. Mr. Huang received his MBA degree from HEC Paris and a master's degree from Edinburgh Napier University. Mr. Huang also received a bachelor's degree from Harbin Institute of Technology in China. He is a fellow of the Chartered Institute of Marketing.

*Andrew Yan* is a director of our company, and is an independent director pursuant to Nasdaq Stock Market Rule 5605(a)(2). He is the founding managing partner of SAIF Partners IV, III and SB Asia Investment Fund II L.P., and president and executive managing director of Softbank Asia Infrastructure Fund. Before joining Softbank Asia Infrastructure Fund in 2001, Mr. Yan was a managing director and the head of the Hong Kong office of Emerging Markets Partnership, the management company of AIG Asian Infrastructure Funds from 1994 to 2001. From 1989 to 1994, he worked in the World Bank, the Hudson Institute and US Sprint Co. as an economist, research fellow and director for Asia respectively in Washington, DC. From 1982 to 1984, he was the chief engineer of Jianghuai Airplane Corp. He is currently an independent non-executive director of China Petroleum & Chemical Corporation and China Resources Land Limited, non-executive director of Guodian Technology & Environment Group Corporation Limited, eSun Holdings Limited and China Huiyuan Juice Group Limited. He is also an independent director of BlueFocus Communication Group, TCL Corporation and director of ATA Online (Beijing) Education Technology Co., Ltd. He also holds directorship in several SAIF portfolio companies. Mr. Yan received a master of arts degree from Princeton University, and a bachelor's degree in engineering from the Nanjing Aeronautic Institute.

*Hope Ni* has been an independent director of ATA Inc. and ATA Online. Ms. Ni is an executive director and the chief investment officer of Cogobuy Group (listed on the Main Board of The Stock Exchange of Hong Kong). Ms. Ni currently serves on the boards of JA Solar Holdings Co (NASDAQ: JASO) and Digital China Holdings Ltd. (Stock code: 00861.HK). From 2004 to 2007, Ms. Ni was the chief financial officer and director of Viewtran Group, Inc. (NASDAQ: VIEW), during which time, Viewtran Group increased market capitalization approximately seven times. In 2008, Ms. Ni served as the vice chairman of Viewtran Group, Inc. Prior to that, Ms. Ni spent six years as a practicing attorney at Skadden, Arps, Slate, Meagher & Flom LLP in New York and Hong Kong. Earlier in her career, Ms. Ni worked at Merrill Lynch's investment banking division in New York. Ms. Ni received her J.D. degree from University of Pennsylvania Law School and her B.S. degree in applied economics and business management from Cornell University.

*Alec Tsui* is an independent director on our board and ATA Online. Mr. Tsui is currently an independent non-executive director of a number of companies listed in Hong Kong, Philippines and on the Nasdaq Global Market, including, COSCO Shipping International (Hong Kong) Co Ltd., Pacific Online Limited, Summit Ascent Holdings Limited, Melco Resorts & Entertainment Limited, Melco Resorts & Entertainment (Philippines) Corporation, Kangda International Environmental Company Limited and DTXS Silk Road Investment Holdings Company Limited. He was the chairman of the Hong Kong Securities Institute from 2001 to 2004. He was an advisor and a council member of the Shenzhen Stock Exchange from 2001 to 2002. He joined the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and became its chief executive in 1997. Prior to that, Mr. Tsui served at the Securities and Futures Commission of Hong Kong from 1989 to 1993. Mr. Tsui graduated from the University of Tennessee with a B.S. degree and a master's degree in industrial engineering. He completed a program for senior managers in government at the John F. Kennedy School of Government of Harvard University.

*Zhilei Tong* is a director of our board. Mr. Tong founded Chinese All Digital Publishing Group Co., Ltd. in 2000 and is currently the chairman and CEO of ChineseAll Digital Publishing Group Co., Ltd. He is also the executive director of Pingxiang Ruiwen Enterprise Management Consulting Co., Ltd., the executive director and CEO of Beijing ChineseAll Education Technology Development Co., Limited, the executive director of Shanghai ChineseAll Culture Development Co., Ltd., and the executive director of Hangzhou ChineseAll Information Technology Co., Ltd., the executive director of ChineseAll (Tianjin) Culture Development Co., Ltd., the executive director of ChineseAll Group Limited, the director of Beijing Yajieshanghui Consulting Co., Ltd., the representative of the Beijing Municipal People's Congress, a representative of the 16th People's Congress of Beijing Dongcheng District, a member of the Secretary General in the All-China Youth Federation and secretary general in education subsector, the vice-chairman in Youth Federation of Dongcheng District of Beijing, the vice president of the Copyright Society of China, the vice-chairman of China Redactological Society. Mr. Tong received his bachelor's degree from Tsinghua University and his IMBA degree from MIT and Tsinghua University.

*Amy Tung* is our Chief Financial Officer having assumed such role on April 1, 2017. She also serves as chairman on the supervisory board of ATA Online. Ms. Tung has been with the Company since 2006, serving in roles previously including the assistant to the CEO and vice president/financial controller. Prior to her service with ATA, Ms. Tung has held various financial and accounting positions with Bayer Healthcare Limited in Hong Kong, BEA Systems (Hong Kong) Limited, Bureau Veritas Consumer Products Services (Hong Kong) Limited, Agilent Technologies Hong Kong Limited, and Compaq Computer Limited. Ms. Tung received her master's degree in financial engineering from Columbia University and her MBA and bachelor's degree in computer science from the Chinese University of Hong Kong. She is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.



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*Alex Tong* is our vice president in charge of business development. Prior to joining us in September 2005, Mr. Tong worked as a general manager for the Asia Pacific region at the Royal Institution of Chartered Surveyors from 2003 to 2005. Prior to that, Mr. Tong worked for Thomson Prometric in the position of executive director from 1999 to 2003 and as the managing director at Pearson NCS Hong Kong Ltd. from 1997 to 1999. Mr. Tong is serving as the Chairman of the Association of Test Publishers (ATP) from January 1 through December 31 of 2018. Mr. Tong graduated from University of Nottingham with a bachelor's degree in education and a master's degree of philosophy in education and from the Chinese University of Hong Kong with an executive MBA.

**B. Compensation**

For the nine months ended December 31, 2017, we and our subsidiaries paid aggregate cash compensation of approximately RMB 6.4 million (\$1.0 million) to our directors and executive officers as a group. We do not pay or set aside any amounts for pension, retirement or other benefits for our officers and directors.

**Share Incentives**

We adopted a share incentive plan, or the 2005 Plan, in April 2005, which was terminated in 2015. We adopted our 2008 Employee Share Incentive Plan, or the 2008 Plan, in January 2008. We amended and restated the 2008 Plan, or the Amended and Restated 2008 Plan, in December 2016, primarily to extend its term and expand the option pool thereunder to include the reserved but unissued common shares under the 2005 Plan. Our share incentive plans are intended to promote our success and to increase shareholder value by providing an additional means to attract, motivate, retain and reward selected directors, officers, employees and other eligible persons. An aggregate of 3,310,300 common shares are reserved for issuance under the 2005 Plan. Subject to any amendment of our Amended and Restated 2008 Plan by our directors, the maximum aggregate number of common shares that may be issued pursuant to all awards under the Amended and Restated 2008 Plan is 5,726,763 shares (which was increased from 3,026,763 shares under the 2008 Plan), plus, unless the board of directors determines a lesser amount, an annual increase on January 1 of each calendar year beginning in 2017 equal to the lesser of (x) one percent (1%) of the number of shares issued and outstanding on December 31 of the immediately preceding calendar year, and (y) 336,307 shares. As of December 31, 2017, 6,063,070 shares were authorized for issuance under the Amended and Restated 2008 Plan.

We have granted share options and restricted shares under the 2005 Plan, the 2008 Plan and the Amended and Restated 2008 Plan to selected directors, officers, employees and individual consultants and advisors. As of January 1, 2018, we have granted a total of 2,377,067 share options that are outstanding under such plans, of which 842,337 have vested. The contractual term of these options is ten years. As of January 1, 2018, we have also granted 2,625,000 restricted shares that are unvested and outstanding, and 60,000 restricted shares have vested in the nine months ended December 31, 2017.

Options and restricted shares granted under our share incentive plans generally do not vest unless the grantee remains under our employment or in service with us on the given vesting date.



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Generally, if the grantee's employment or service with us is terminated for cause, all such grantee's options under our share incentive plans, vested and unvested, immediately terminate and become unexercisable. On the other hand, if the grantee's employment or service with us is terminated for any reason other than for cause, all such grantee's vested options terminate and become unexercisable 90 days, or three months following the grantee's last day of employment or service with us, while generally all unvested options immediately terminate and become unexercisable. In circumstances where there is a death or total disability of the grantee, all such grantee's vested options terminate and become unexercisable 12 months following the grantee's last day of employment or service with us, while generally all unvested options immediately terminate and become unexercisable.

Our board of directors may amend, alter, suspend, or terminate our share incentive plans at any time, provided, however, that our board of directors must first seek the approval of the participants of our share incentive plans if such amendment, alteration, suspension or termination would adversely affect the rights of participants under any option granted prior to that date. Without further action by our board of directors, the 2005 Plan terminated in 2015 and the Amended and Restated 2008 Plan will terminate in 2026.

The table below sets forth the share option and restricted share grants made to our current directors and executive officers pursuant to our share incentive plans:

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<b>Name</b>	<b>Number of Common Shares to be Issued Upon Exercise of Options</b>	<b>Exercise Price per Common Share</b>	<b>Date of Grant</b>	<b>Vesting Start Date</b>	<b>Date of Expiration</b>
Hope Ni	50,000	\$ 4.75	January 7, 2008	January 7, 2008	January 6, 2018
Alec Tsui	50,000	\$ 4.75	January 28, 2008	January 28, 2008	January 27, 2018
Kevin Xiaofeng Ma	1,469,460	\$ 2.24	February 10, 2015	February 10, 2015	February 9, 2025
Alex Tong	100,000	\$ 1.705	January 17, 2017	January 17, 2017	January 16, 2027
Amy Tung	100,000	\$ 1.705	January 17, 2017	January 17, 2017	January 16, 2027

**Restricted Shares**

<b>Name</b>	<b>Restricted Shares</b>	<b>Date of Grant</b>	<b>Vesting Start Date</b>
Kevin Xiaofeng Ma	200,000	May 30, 2011	June 1, 2011
	90,000	February 10, 2015	February 10, 2015
	133,000	January 17, 2017	January 17, 2017
Andrew Yan	100,000	May 30, 2011	June 1, 2011
	133,000	January 17, 2017	January 17, 2017
Hope Ni	60,000	February 16, 2012	February 17, 2012
	133,000	January 17, 2017	January 17, 2017
Alec Tsui	60,000	February 16, 2012	February 17, 2012
	133,000	January 17, 2017	January 17, 2017
Alex Tong	100,000	June 13, 2013	June 13, 2013
	60,000	January 17, 2017	January 17, 2017
Amy Tung	30,000	February 16, 2012	February 17, 2012
	10,000	June 13, 2013	June 13, 2013
	100,000	January 17, 2017	January 17, 2017

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**C. Board Parties**

**Duties of Directors**

Under Cayman Islands Law, our directors have a statutory duty of loyalty to act honestly in good faith with a view to our best interests. Our directors also have a duty to exercise the care, diligence and skills that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our amended and restated memorandum and articles of association. A shareholder has the right to seek damages if a duty owed by our directors is breached.

The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- issuing authorized but unissued shares;
- declaring dividends and distributions;
- exercising the borrowing powers of our company and mortgaging the property of our company;
- approving the transfer of shares of our company, including the registering of such shares in our share register;  
and
- exercising any other powers conferred by the shareholders' meetings or under our amended and restated memorandum and articles of association.

**Terms of Directors**

We have a board of six directors divided into class A, class B and class C directors. As of the date of this transition report, the class A directors are Kevin Xiaofeng Ma and Zhilei Tong, the class B directors are Andrew Yan and Jack Huang, and the class C directors are Hope Ni and Alec Tsui. One third of our directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one third) shall retire from office every year at our annual general meeting of shareholders on a rotating basis. Our class B director Andrew Yan was re-elected at our 2017 annual general meeting. Our class A director Zhilei Tong will retire from office and will be eligible for re-election at our 2018 annual general meeting. Our chief executive officer, which currently is Kevin Xiaofeng Ma, shall not, while holding office, be subject to retirement or be taken into account in determining the number of directors to retire in any year. Neither we nor our subsidiaries have any directors' service contracts providing for benefits upon termination of employment.

#### **Board Practices**

Our board of directors has established an audit committee, a compensation committee and a nominations committee.

#### ***Audit Committee***

Our audit committee consists of Hope Ni and Alec Tsui. Hope Ni is the chairman of our audit committee. Our board of directors has determined that Hope Ni and Alec Tsui are independent directors within the meaning of Nasdaq Stock Market Rule 5605(a)(2) and meet the criteria for independence set forth in Rule 10A-3(b) of the Exchange Act. Hope Ni meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC. The third seat on our audit committee is vacant in reliance on Nasdaq Stock Market Rule 5615(a)(3), which permits a foreign private issuer like us to follow home country practices in relation to the composition of its audit committee. In this regard we have elected to adopt the practices of our home country, the Cayman Islands, which does not require us to have a three member audit committee or to fill all three seats on the audit committee at this time.

Our audit committee is responsible for, among other things:

- appointing the independent auditor;
- pre-approving all auditing and non-auditing services permitted to be performed by the independent auditor;
- annually reviewing the independent auditor's report describing the auditing firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor and all relationships between the independent auditor and our company;
- setting clear hiring policies for employees and former employees of the independent auditor;

- reviewing with the independent auditor any audit problems or difficulties and management's responses;
- reviewing and approving all related party transactions on an ongoing basis;
- reviewing and discussing the annual audited financial statements with management and the independent auditor;
- reviewing and discussing with management and the independent auditor major issues regarding accounting principles and financial statement presentations;

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- reviewing reports prepared by management or the independent auditor relating to significant financial reporting issues and judgments;
- discussing earnings press releases with management, as well as financial information and earnings guidance provided to analysts and rating agencies;
- reviewing with management and the independent auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on our financial statements;
- discussing policies with respect to risk assessment and risk management with management, internal auditors and the independent auditor;
- timely reviewing reports from the independent auditor regarding all critical accounting policies and practices to be used by our company, all alternative treatments of financial information within U.S. GAAP that have been discussed with management and all other material written communications between the independent auditor and management;
- establishing procedures for the receipt, retention and treatment of complaints received from our employees regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time;
- meeting separately, periodically, with management, internal auditors and the independent auditor; and
- reporting regularly to the full board of directors.

### ***Compensation Committee***

Our compensation committee consists of Andrew Yan, Hope Ni and Alec Tsui. Andrew Yan is the chairman of our compensation committee. Our board of directors has determined that all of our compensation committee members are independent directors within the meaning of Nasdaq Stock Market Rule 5605(a)(2).

Our compensation committee is responsible for:

- reviewing and approving our overall compensation policies;
- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer, evaluating our chief executive officer's performance in light of those goals and objectives, reporting the results of such evaluation to the board of directors, and determining our chief executive officer's compensation level based on this evaluation;
- determining the compensation level of our other executive officers;
- making recommendations to the board of directors with respect to our incentive-compensation plans and equity-based compensation plans;
- administering our equity-based compensation plans in accordance with the terms thereof; and
- such other matters that are specifically delegated to the compensation committee by our board of directors from time to time.

### ***Nominations Committee***

Our nominations committee consists of Kevin Xiaofeng Ma, Andrew Yan and Alec Tsui. Kevin Xiaofeng Ma is the chairman of the nominations committee. Although Nasdaq Stock Market Rules generally require all members of the nominations committee of a listed company to be independent directors within the meaning of Nasdaq Stock Market Rule 5605(a)(2), Nasdaq Stock Market Rule 5615(a)(3) permits a foreign private issuer like us to follow home country practices in relation to composition of its nominations committee. In this regard, we have elected to adopt the practices of our home country, the Cayman Islands, which does not require that any of the members of a company's nominations committee be independent directors.

Our nominations committee is responsible for, among other things:

- seeking and evaluating qualified individuals to become new directors as needed;
- reviewing and making recommendations to the board of directors regarding the independence and suitability of each board member for continued service; and
- evaluating the nature, structure and composition of other board committees.



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**Corporate Governance**

Our board of directors has adopted a code of ethics, which is applicable to our senior executive and financial officers. In addition, our board of directors has adopted a code of conduct, which is applicable to all of our directors, officers, employees and advisors. Our code of ethics and our code of conduct are publicly available on our website, <http://www.atai.net.cn>. In addition, our board of directors has adopted a set of corporate governance guidelines. The guidelines reflect certain guiding principles with respect to our board's structure, procedures and committees. The guidelines are not intended to change or interpret any law, or our amended and restated memorandum and articles of association.

**Interested Transactions**

A director may vote with respect to any contract or transaction in which he or she is interested, provided that the nature of the interest of any director in such contract or transaction is disclosed by him or her at or prior to its consideration and any vote in that matter.

**D. Employees**

We had 446, 483 and 551 employees as of March 31, 2016, 2017 and December 31, 2017, respectively. As of December 31, 2017, we had 117 employees in sales and marketing, 156 in research and development, 197 in client service and support and 81 in general and administrative functions.

In April 2005, we adopted a share incentive plan, or the 2005 Plan. In January 2008, we adopted our 2008 share incentive plan, or the 2008 plan. We amended and restated the 2008 Plan, or the Amended and Restated 2008 Plan, in December 2016. We use our share incentive plans as an additional means to further attract, motivate, retain and reward selected directors, officers, employees and third-party consultants and advisors. For more information, see Item 6.B. Directors, Senior Management and Employees Compensation Share Incentives. We believe these initiatives have contributed to our ability to attract and retain talent.

As required by Chinese laws and regulations, we participate in various employee benefit plans that are organized by municipal and provincial governments, including housing, pension, medical and unemployment benefit plans. We make monthly payments to these plans in respect of each employee based on the employee's compensation. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes. Our employees have not entered into any collective bargaining agreements.

According to our contracts with our employees, our employees are generally prohibited from engaging in any activities that compete with our business during the period of their employment and for two years after termination of their employment with us. Furthermore, all employees are prohibited, for a period of two years following termination, from soliciting other employees to leave us and, for a period of five years following termination, from soliciting our existing clients. However, we may have difficulty enforcing these non-competition and non-solicitation terms in China because the Chinese legal system, especially with respect to the enforcement of such terms, is still developing.

**E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership, within the meaning of Section 13(d)(3) of the Exchange Act, of our common shares as of April 5, 2018 by:

- each person known to us to own beneficially more than 5% of common shares, and
- each of our directors and executive officers

	Common shares beneficially owned	
	Number (1)	Percent (2)
<b>Directors and Executive Officers:</b>		
Kevin Xiaofeng Ma(3)	24,793,143	50.7%
Jack Huang	*	*
Andrew Yan	*	*
Hope Ni	*	*
Alec Tsui	*	*
Zhilei Tong	*	*
Alex Tong	*	*
Amy Tung	*	*
Directors and Executive Officers Combined	25,748,411	52.6%
<b>Principal Shareholders:</b>		
Joingear Limited(4)	18,427,074	38.6%
HSBC International Trustee Limited(5)	9,804,588	20.5%
Able Knight Development Limited(3)	4,998,988	10.5%
Lijun Mai(6)	4,805,600	10.1%
Cheng-Yaw Sun(7)	3,212,000	6.7%
Alpha Advantage Global Limited(8)	4,717,100	9.9%
Jiangong Zhao(8)	4,717,100	9.9%

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\* Beneficially owns less than 1% of our common shares.

(1) The number of common shares beneficially owned by each of the listed persons includes common shares that such person has the right to acquire within 60 days after April 5, 2018.

(2) Percentage of beneficial ownership for each of the persons listed above is determined by dividing (i) the number of common shares beneficially owned by such person by (ii) the total number of common shares outstanding, plus the number of common shares such person has the right to acquire within 60 days after April 5, 2018. The total number of our common shares outstanding as of April 5, 2018 is 47,754,386.

(3) Includes (i) (a) 264,986 common shares and (b) options to purchase 1,102,095 common shares held by Kevin Xiaofeng Ma, (ii) 4,998,988 common shares held by Able Knight Development Limited, which is a British Virgin Islands company ultimately wholly-owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of the Cayman Islands with Kevin Xiaofeng Ma as the settlor and certain family members of Kevin Xiaofeng Ma as the beneficiaries, and (iii) 18,427,074 common shares held by Joingear Limited, which is a British Virgin Islands company with 50.01% and 49.99% of its issued and outstanding share capital owned by Kevin Xiaofeng Ma and ChineseAll Group Limited, respectively. Kevin Xiaofeng Ma is the sole director of Able Knight Development Limited. The business address of Able Knight Development Limited is Portcullis Chambers, 4th Floor, Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands. Kevin Xiaofeng Ma and Zhilei Tong are directors of Joingear Limited. The business address of Joingear Limited is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.

(4) Includes 18,427,074 common shares held by Joingear Limited, based on Schedule 13D Amendment No. 3 filed jointly by Kevin Xiaofeng Ma, Able Knight Development Limited, Precious Time Holdings Limited, Ma Family Trust and Joingear Limited on February 8, 2018. Joingear Limited is a British Virgin Islands company. Kevin Xiaofeng Ma and Zhilei Tong are directors of Joingear Limited.

(5) Based on a report provided by HSBC International Trustee Limited on March 7, 2018. Includes 4,998,988 common shares and 2,402,800 ADSs (representing 4,805,600 common shares) held by HSBC International Trustee Limited solely in its capacity as trustee of various trusts. These trusts include Able Knight Development Limited, holding 4,998,988 common shares, Mutual Step Holdings Limited, holding 802,800 ADSs (representing 1,605,600 common shares), Art Grace Development Limited, holding 800,000 ADSs (representing 1,600,000 common shares) and Art Kind Technology Limited, holding 800,000 ADSs (representing 1,600,000 common shares). The registered address of HSBC International Trustee Limited is 21 Collyer Quay, #19-01 HSBC Building, Singapore 049320.

(6) Based on a Schedule 13G filed jointly by Lijun Mai, Mutual Step Holdings Limited, Magnificent Trio Company Limited, Wealth Trust, Art Kind Technology Limited, New Knight Holdings Limited, Sunrise Trust, Art Grace Development Limited, Unique Icon Limited and Value Trust on February 17, 2009 and a report provided by HSBC International Trustee Limited on March 7, 2018. Includes 1,605,600 common shares held by Mutual Step Holdings Limited, 1,600,000 common shares held by Art Kind Technology Limited and 1,600,000 common shares held by Art Grace Development Limited. Each of Mutual Step Holdings Limited, Art Kind Technology Limited and Art Grace Development Limited is a British Virgin Islands company ultimately wholly-owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of Cayman Islands with Lijun Mai or certain family members of Lijun Mai as the settler and beneficiaries. Lijun Mai is the sole director of Mutual Step Holdings Limited. The business address of each of Mutual Step Holdings Limited, Art Kind Technology Limited and Art Grace Development Limited is Portcullis Chambers, 4th Floor, Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands.

(7) Includes 936,936 common shares and 531,532 ADSs (representing 1,063,064 common shares) held of record by Twittering World Limited and 1,212,000 common shares held of record by Xing Wei Institute Inc. Based on Schedule 13D filed jointly by Cheng-Yaw Sun, Twittering World Limited and Xing Wei Institute Inc. on November 22, 2013. Cheng-Yaw Sun, as sole director and shareholder of Twittering World Limited and sole director of Xing Wei Institute Inc. may be deemed to have sole voting and dispositive power over the shares held of record by Twittering World Limited and Xing Wei Institute Inc.

(8) Based on a Schedule 13G Amendment No. 1 filed jointly by Jiangong Zhao, Dynamic Fame Limited and Alpha Advantage Global Limited on January 22, 2018. Includes 188,000 common shares held of record by Dynamic Fame Limited and 4,529,100 common shares held of record by Alpha Advantage Global Limited. Dynamic Fame Limited is a British Virgin Islands company and a wholly owned subsidiary of Alpha Advantage Global Limited. Alpha Advantage Global Limited is a British Virgin Islands company wholly owned by Jiangong Zhao. The business address of Alpha Advantage Global Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands and the business address of Dynamic Fame Limited is Office 1601, 16/F, 31 Queen's Road Central, Hong Kong.

None of our shareholders have different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. See Item 6.B. Directors, Senior Management and Employees Compensation Share Incentives for information on options granted to our current directors and executive officers. To our knowledge, as of April 5, 2018, none of our common shares were held by holders of record in the United States. However, 23,724,232 common shares were registered in the name of a nominee of Citibank, N.A., the depositary of our ADSs. It is likely that a large number of beneficial owners of our ADSs reside in the United States.

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**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

**A. Major Shareholders**

Please refer to Item 6.E. Directors, Senior Management and Employees Share Ownership.

**B. Related Party Transactions**

**Contractual Arrangements with Our Variable Interest Entity and its Shareholders**

PRC laws and regulations currently limit foreign ownership of companies that engage in certain businesses related to, among other things, value-added telecommunication services and international education business. Due to these restrictions, we operate our relevant business through contractual arrangements with our variable interest entity. For a description of these contractual arrangements, see Item 4.A.

Information on the Company History and Development of the Company Contractual Arrangements with ATA Intelligent Learning.

**Receivable due from shareholder**

In May 2015, we terminated the VIE agreements with the nominee shareholders of ATA Online. The entire equity interests of ATA Online were transferred from the nominee shareholders to ATA Learning and Zhongxiao Zhixing for a consideration of RMB 10.0 million, equaling to the amount of the registered capital of ATA Online. As a result, ATA Online became a wholly owned subsidiary of our company. The consideration was paid to the nominee shareholders. Mr. Haichang Xiong, transferred his consideration of RMB 1.0 million to Mr. Kevin Xiaofeng Ma on March 29, 2016 and we received RMB 10.0 million in cash from Mr. Kevin Xiaofeng Ma on June 7, 2017.

**Sublease of Jianwai SOHO office to Master Mind**

ATA Testing subleased Jianwai SOHO office to an equity investee, Master Mind, with a contract term from May 17, 2015 to May 16, 2020. Since June 2017, Master Mind has encountered severe cash flow and going concern issues and stopped making rent payment to the Company. The Company recognized a total sublease income of RMB 650,478 and RMB 207,346 for the year ended March 31, 2017 and nine months ended December 31, 2017, respectively. In February 2018, the sublease agreement was terminated.

**Disposal of Partial Equity Interest in Zhishang to Tianjin Zhishang**

On June 27, 2017, ATA Online entered into an agreement to sell 15% equity interest in Zhishang to Tianjin Zhishang Education Technology Limited Partnership ( Tianjin Zhishang ) for a total cash consideration of RMB 1,253,550. The executive partner of Tianjin Zhishang is the CEO and a director of ATA Online.

#### **Agreements among ATA BVI, ATA Learning and ATA Online**

We previously operated most of our business in China through ATA Online, a PRC company that was previously held by PRC citizens and then became a wholly-owned subsidiary of our company in May 2015. We did not own any equity interest in ATA Online before it became our subsidiary in May 2015. Through ATA Learning, our wholly-owned subsidiary in the PRC, we had entered into a series of contractual arrangements with ATA Online and its shareholders, including loan agreements, a call option and cooperation agreement, an equity pledge agreement, a technical support agreement, a strategic consulting service agreement and powers of attorney.

The following is a summary of certain provisions of these prior agreements. All of these agreements were terminated with effect from May 20, 2015. For more complete information you should read them in their entirety.

*Technical support agreement, dated October 27, 2006.* Under this prior agreement, ATA Learning provided ATA Online with exclusive technical support services for the maintenance of ATA Online's servers, networks and other equipment, software and systems. In return, ATA Online paid a quarterly service fee to ATA Learning. The service fee was mutually agreed by both parties, and was determined based on certain objective criteria such as the actual services required by ATA Online and the actual labor costs, as determined by the number of days and personnel involved, incurred by ATA Learning for providing the services during the relevant period. In addition, ATA Online reimbursed ATA Learning for out of pocket costs ATA Learning incurred in connection with providing the services.

*Strategic consulting service agreement, dated October 27, 2006.* Under this prior agreement, ATA Learning provided ATA Online with strategic consulting and related services for ATA Online's business, including (1) valuation of new products; (2) industry investigation and survey; (3) marketing and promotion strategies; and (4) other services related to ATA Online's online education services business. The fees for these services were confirmed by ATA Learning and calculated monthly but paid quarterly based on actual time spent in providing the services. In addition, ATA Learning had the right to adjust the fees payable by ATA Online in accordance with its performance.

*Equity pledge agreement, dated October 27, 2006, as amended and restated on February 12, 2007, as amended on July 7, 2009 and as amended on April 13, 2015.* To secure the payment obligations of ATA Online under the exclusive technical support agreement and the strategic consulting service agreement described above and provide additional covenants, ATA Online's shareholders had pledged to ATA Learning their entire equity ownership interests in ATA Online. Upon the occurrence of certain events of default specified in this agreement, ATA Learning could bring a lawsuit against ATA Online in a local PRC court to confirm the debt amount and enforce the pledge by foreclosing on the pledged equity interest. Upon foreclosure, the pledged assets would be sold off by the court in a public auction and the proceeds used to satisfy ATA Online's outstanding liabilities under the equity pledge agreement. ATA Learning or its designee could also take part in the auction to bid for the pledged assets itself. The purpose of the equity pledges was to act as collateral for ATA Online's performance under those agreements.



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*Loans to the Shareholders of ATA Online, dated October 27, 2006, as amended on February 12, 2007, on July 7, 2009 and on April 13, 2015.* ATA BVI entered into loan agreements with each of Kevin Xiaofeng Ma, Haichang Xiong, Walter Lin Wang and Jianguo Wang, the shareholders of ATA Online to extend each of Kevin Xiaofeng Ma, Haichang Xiong, Walter Lin Wang and Jianguo Wang an interest free loan in the amount of RMB 9.0 million, RMB 1.0 million, RMB 1.0 million and RMB 0.1 million, respectively, for the sole purpose of investing in ATA Online as ATA Online's registered capital. The initial term of these loans in each case was ten years, which could be extended upon the parties' agreement. Kevin Xiaofeng Ma, Haichang Xiong, Walter Lin Wang and Jianguo Wang could only repay the loans by transferring all of their interests in ATA Online to ATA BVI or to a third party designated by ATA BVI.

*Call Option and Cooperation Agreement, dated October 27, 2006, as amended and restated on February 12, 2007, as amended on July 7, 2009 and April 13, 2015.* Through the prior call option and cooperation agreement entered into among ATA BVI, ATA Online and its shareholders, ATA BVI or any third party designated by ATA BVI had the right to acquire, in whole or in part, the respective equity interests in ATA Online of its shareholders or ATA Online's assets when permitted by applicable PRC laws and regulations. The proceeds from the exercise of the call option would be applied to repay the loans under the loan agreement described above. Further, without ATA BVI's prior written consent, ATA Online and its shareholders were prohibited from selling, assigning, mortgaging or otherwise disposing, or creating any encumbrance on, any of ATA Online's assets or operation or any legal or beneficial interests with respect to its revenues, entering into any transaction which might materially affect ATA Online's assets, liabilities, operations, equity or other legal rights, or distributing any dividends to its shareholders.

*Power of Attorney, dated March 27, 2013, April 3, 2013 and April 13, 2015.* Under these agreements, Haichang Xiong and Kevin Xiaofeng Ma, each irrevocably and exclusively appointed and constituted ATA Learning or its designee as his attorney-in-fact to exercise on his behalf any and all rights that he had as the shareholder of ATA Online.

**C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION**

**A. Consolidated statements and other financial information.**

Our consolidated financial statements are included at the end of this transition report.



## **Legal Proceedings**

We are not currently involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on our financial condition or results of operations. From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business.

## **Dividend Policy**

On June 1, 2017, we have declared a cash dividend of \$0.205 per common share, or \$0.41 per ADS. The total amount of cash dividend distributed was RMB 65.7 million, which was paid from the cash held by ATA Inc. in June and July 2017 to all shareholders of record as of the close of business on June 12, 2017.

On February 6, 2018, ATA entered into the Share Purchase Agreement with the Buyer Group with respect to the sale of ATA Online. To share value with our shareholders, our board of directors has preliminarily approved to use a portion of the proceeds from the transactions contemplated under the Share Purchase Agreement to pay a cash dividend to our shareholders subject to compliance with applicable Cayman Islands and PRC laws. However, the timing and amount of any cash dividend has not been decided as of the date of this transition report, and may vary depending on several factors, including the progress of this transaction, funding needs for our remaining businesses, our mergers and acquisitions plans, as well as any contingent liabilities or other unforeseen matters in connection with this transaction.

Any future determination to pay dividends will be made at the discretion of our board of directors and will be based upon our future operations and earnings, capital requirements and surplus, general financial condition, shareholders' interests, contractual restrictions and other factors our board of directors may deem relevant.