

ATA Inc.  
Form 20-F  
June 06, 2012  
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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**

**For the fiscal year ended March 31, 2012**

**OR**

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

**OR**

**o 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 . . . . .

**For the transition period from to**

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)

**8th Floor, Tower E  
6 Gongyuan West Street  
Jian Guo Men Nei  
Beijing 100005, China**  
(Address of principal executive offices)

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(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	Name of each exchange on which registered
American Depositary Shares, each representing two common shares, par value \$0.01 per share	NASDAQ Global market

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

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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 annual report: 45,962,376 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 transaction 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

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer. See the definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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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 annual report only:

- 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 ended March 31;
- we, us, our company, our, and ATA refer to ATA Inc. and its subsidiaries and affiliated PRC entity as the context requires;
- China, Chinese and PRC refers to the People's Republic of China, excluding, for purposes of this annual 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 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 annual report on Form 20-F includes our audited consolidated statements of operations for the fiscal years ended March 31, 2010, 2011 and 2012 and audited consolidated balance sheets as of March 31, 2011 and 2012. Each of our ADSs represents two common shares. Our ADSs are listed on the Nasdaq Global Market under the symbol ATAI.

**FORWARD-LOOKING STATEMENTS**

This annual 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 fact in this annual 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 or other expressions. The forward-looking statements included in this annual report relate to, among others:

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- 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 test preparation and training 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 annual report, [Key information](#) [Risk Factors](#) and elsewhere in this annual report.

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The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual 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.

**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**

The following selected consolidated statement of operations data for the fiscal years ended March 31, 2010, 2011 and 2012 (other than ADS data), and the selected consolidated balance sheet data as of March 31, 2011 and 2012, are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with these consolidated financial statements and related notes. Our selected consolidated statements of operations data for the years ended March 31, 2008 and 2009 (other than ADS data) and the selected consolidated balance sheet data as of March 31, 2008, 2009 and 2010 are derived from audited consolidated financial statements not included in this annual 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 Year Ended March 31,**



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	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2012 RMB	US\$
(In thousands, except for share and ADS data)						
<b>Selected Consolidated Statements of Operations Data:</b>						
Net Revenues						
Testing services	78,198	137,046	187,158	243,103	290,881	46,190
Test preparation and training solutions	36,908	25,071	11,149	15,427	26,996	4,287
Other (1)	56,982	55,428	46,725	45,374	34,208	5,432
<b>Total net revenues</b>	<b>172,088</b>	<b>217,545</b>	<b>245,032</b>	<b>303,904</b>	<b>352,085</b>	<b>55,909</b>
Gross profit	105,141	124,937	115,497	154,688	193,267	30,690
Total operating expenses	81,713	98,549	145,552	133,796	128,781	20,450
Income (loss) from operations	23,428	26,388	(30,055)	20,892	64,486	10,240
Foreign currency exchange gains (losses), net	(236)	665	(284)	1,138	3,633	577
Income tax expense	(7,321)	(6,638)	(5,742)	(3,312)	(14,339)	(2,277)
<b>Net income (loss)</b>	<b>20,170</b>	<b>22,810</b>	<b>(35,350)</b>	<b>19,754</b>	<b>55,841</b>	<b>8,867</b>

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	2008 RMB	2009 RMB	For the Year Ended March 31,		2012 RMB	US\$
			2010 RMB	2011 RMB		
(In thousands, except for share and ADS data)						
Basic earnings (loss) per common share	0.79	0.50	(0.79)	0.44	1.22	0.19
Diluted earnings (loss) per common share	0.53	0.49	(0.79)	0.44	1.19	0.19
Basic earnings (loss) per ADS (2)	1.58	1.00	(1.58)	0.88	2.44	0.38
Diluted earnings (loss) per ADS (2)	1.06	0.98	(1.58)	0.88	2.38	0.38
<b>Weighted average ordinary shares outstanding</b>						
Basic	25,442,650	45,376,008	44,789,512	44,469,182	44,713,418	
Diluted	37,761,561	46,431,518	44,789,512	44,469,182	45,664,887	

(1) Includes net revenues from test-based educational services of RMB48,594,550, RMB42,545,536, RMB31,786,398, RMB25,727,038 and RMB12,614,294 in the fiscal year ended March 31, 2008, 2009, 2010, 2011 and 2012, respectively.

(2) Each ADS represents two common shares.

	2008 RMB	2009 RMB	At March 31,		2012 RMB	US\$
			2010 RMB	2011 RMB		
(In thousands, except for share and ADS data)						
<b>Selected Consolidated Balance Sheet Data:</b>						
Cash	332,197	310,503	213,874	268,058	257,168	40,836
Accounts receivable, net	63,502	71,077	82,900	47,052	81,845	12,996
Total current assets	403,309	399,002	309,074	325,491	355,069	56,383
Total assets	436,634	471,245	428,503	435,447	460,720	73,159
Deferred revenues, current	36,708	40,238	25,837	19,101	27,333	4,340
Total current liabilities	66,530	85,189	78,223	67,448	91,066	14,461
Deferred revenues, non-current	7,026	5,626	4,674	3,824	3,100	492
Total liabilities	73,556	91,004	83,028	71,384	94,305	14,975
Accumulated deficit	(114,912)	(92,102)	(127,452)	(107,698)	(51,857)	(8,234)
Total shareholders equity	363,078	380,241	345,475	364,063	366,415	58,184

	2008	2009	For the Year Ended March 31,		
			2010	2011	2012
<b>Key Operating Data:</b>					
Number of tests delivered (1)	12,787,470	5,063,379	5,760,147	7,162,462	8,529,095

(1) Includes Microsoft royalty tests overseas and tests delivered through our test delivery platform and tests using our Dynamic Simulation Technology. Also includes free tests delivered for business development purpose. The number of tests delivered excluding the free tests in the fiscal years ended March 31, 2008, 2009, 2010, 2011 and 2012 was 3,632,285, 5,063,379, 5,760,147, 6,907,158 and 8,026,639, respectively. We delivered 9,155,185 free tests in the fiscal year ended March 31, 2008 for the on-line nationwide accounting knowledge

contest.

**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 annual 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.

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dollars in this annual report were made at a rate of RMB6.2975 to US\$1.00, which was the noon buying rate in effect as of March 30, 2012. The noon buying rate on June 1, 2012 was RMB6.3692 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.

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 annual report.

	Average (1)	Renminbi per U.S. Dollar Noon Buying Rate		Period-end
		High	Low	
Fiscal year ended March 31, 2008	7.4197	7.7345	7.0105	7.0120
Fiscal year ended March 31, 2009	6.8684	7.0185	6.7800	6.8329
Fiscal year ended March 31, 2010	6.8268	6.8319	6.8180	6.8258
Fiscal year ended March 31, 2011	6.5645	6.5743	6.5483	6.5483
Fiscal year ended March 31, 2012	6.3980	6.5477	6.2935	6.2975

	Average (1)	Renminbi per U.S. Dollar Noon Buying Rate		Period-end
		High	Low	
Most recent six months:				
December 2011	6.3482	6.3733	6.2939	6.2939
January 2012	6.3119	6.3330	6.2940	6.3080
February 2012	6.2997	6.3120	6.2935	6.2935
March 2012	6.3125	6.3315	6.2975	6.2975
April 2012	6.3043	6.3150	6.2790	6.2790
May 2012	6.3242	6.3684	6.3052	6.3684
June 2012 (period through June 1)	6.3692	6.3692	6.3692	6.3692

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

(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 month.

## **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**

*A limited number of our clients have accounted 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 two largest clients in the fiscal year ended March 31, 2012, the Securities Association of China, or SAC, and the China Banking Association, accounted for 37.3% and 10.5%, respectively, of our net revenues for that period. We provide computer-based testing services and online test preparation services to the SAC. We generated RMB110.3 million and RMB21.1 million from provision of computer-based testing services and online test preparation services, respectively, to the SAC in the fiscal year ended

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March 31, 2012. In 2009, we participated in a bid to provide computer-based testing services for the SAC and won the right to service the SAC for a term of three years from 2010 to 2012. We enter into an annual contract with the SAC each year providing detailed terms of our engagement. We are currently delivering tests for the SAC under our 2012 contract, which was entered into in May 2012. Since December 2011 the SAC has been in the process of assessing the feasibility to run its online training program internally rather than outsourcing its operation to us. In place of our previous contract under which we operated the online training program on behalf of the SAC, we have entered into a contract through March 2013 under which we will provide technical and services support during the assessment period. After March 2013, if the SAC decides not to recommence outsourcing the operation of its online training program, we expect to no longer provide such services to the SAC.

Our top five clients for the fiscal year ended March 31, 2012 accounted for 63.8% of our net revenues for the fiscal year ended March 31, 2012.

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 results of operations:

- a reduction, delay or cancellation of contracts or product or service orders from one or more of our major clients;
- 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, any of which 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 had RMB33.3 million in revenues in the quarter ended September 30, 2010 as compared to RMB135.9 million in revenues in the quarter ended December 31, 2010 primarily because our major test sponsors, the SAC, chose to hold tests during the third quarter instead of the second quarter for the fiscal year

ended March 31, 2011.

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

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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.

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

As the Chinese market for our services is still emerging, 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 and career-oriented educational services and to use our technologies and services:

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

A decline in the demand for computer-based testing services by test sponsors could negatively affect demand for our computer-based testing services and technologies. Even if demand for computer-based testing services continues to grow, this demand may not grow as quickly as we anticipate.

The services offered by our HR Select employee assessment solution are relatively new and market acceptance of this innovative testing product is uncertain. Furthermore, we only generate revenues from a small amount of our HR Select customers for now. If we are unable to increase or maintain customer demand for this product, in particular demand by paying customers, our revenue growth may slow or we may experience a decrease in revenues.



*If we are not successful in achieving market acceptance for our new service offerings, our revenues and operating results will be adversely affected.*

In order to increase our revenue sources, we have allocated, and intend to continue to allocate, time, effort and capital to expand our service offerings, including our HR Select employee assessment solution, distribution and administration of the Test of English for International Communication, or TOEIC exam in China, all of which we launched in 2009. We generated RMB29.8 million, RMB54.5 million, and RMB88.0 million from the HR Select and TOEIC of business in 2010, 2011, and 2012, respectively. 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. 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 which we face expanding in this market 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 our other markets;
- 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.

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The success of our new service offerings going forward also depends on our ability to gain and maintain relevant business relationships, such as our relationship with Educational Testing Services, or ETS, in relation to our distribution and administration of TOEIC exams in China, and our relationship with Saville Consulting in relation to psychometric tests for our HR Select employee assessment solution. If our new service offerings are ultimately unsuccessful or do not grow as rapidly as we expect, our net revenues and profitability will be adversely affected.

***Breaches or perceived breaches of our security measures relating to test collection, scoring and storage or unauthorized disclosure or misuse of personal data through breach of our computer systems or otherwise could cause us to receive negative publicity, and lose clients and expose us to protracted and costly litigation.***

As part of our service offerings, we collect, process, transmit and store highly confidential information, including personal information and test questions, answers and scores. Maintaining the security and confidentiality of the information we handle as part of our testing services is essential to protecting the integrity and accuracy of the test taking process and retaining our client base. Any breach or perceived breach in our security measures pertaining to the collection, processing, transmission or storage of such information as a result of third-party action, employee error, and malfeasance or otherwise could result in liability claims and have a negative impact on our reputation. Additionally, we could be subject to liability claims or regulatory penalties for misuses of information collected from clients or students or for the unauthorized disclosure or unauthorized or inappropriate use of such information. Any such negative publicity or liability claims could have a significant negative impact on our future business, cause us to lose clients and expose us to costly litigation.

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

We have derived a significant portion of our total net revenues from licensing and service fees from Chinese governmental agencies. Demand 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. For example, in the fiscal year ended March 31, 2010, NTET sales decreased significantly relative to the previous fiscal years, due to a delay in the government's implementation of the national NTET certification requirement and the associated cuts in relevant government budgets. We had no NTET sales in the fiscal years ended March 31, 2011 and 2012.

***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 the competitiveness or result in the obsolescence of our current technologies and services. 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, demand 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 have developed and use to create and deliver computer-based tests for our clients, there is a risk that technical errors or failures may occur in relation to these services. These may include errors, failures or bugs in our self-developed 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,

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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 of 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 identity, 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 identity, 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 March 31, 2012, we had contractual relationships with 2,462 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 were to engage in 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 demand 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 action quickly enough to prevent harm to our reputation.

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

We anticipate that 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. In the future, 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 and established infrastructure. 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 test preparation and training solutions. 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.

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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 our co-founders Kevin Xiaofeng Ma, our chairman and chief executive officer, and Walter Lin Wang, our president, for their 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 either Mr. Ma or Mr. Wang was unable or unwilling to continue in their present positions, or if they joined a competitor or formed a competing company in violation of their employment agreements, we may not be able to replace them easily and our business may be severely disrupted. We do not maintain key-man life insurance for Mr. Ma or Mr. Wang or for any of our other employees.

***Because competition for highly skilled employees is intense, 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 relatively new 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 find 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 arrangement. 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 under current Chinese law for us to take legal action 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.

***If Microsoft exercises its contractual option to acquire the source code of our Dynamic Simulation Technology, or DST, Microsoft or a company to which Microsoft licenses or sells such technology may be able to more effectively compete with us.***

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Under our Simulation Technology License Agreement with Microsoft, Microsoft has the right to acquire for \$3.0 million a perpetual royalty-free license to the source code of our Dynamic Simulation Technology, or DST, along with the right to freely sell, license or sublicense the DST source code to third parties. The contract does not restrict which entities to which Microsoft may sell, license or sublicense the DST source code. While Microsoft's exercise of this option would generate \$3.0 million in revenue to us upon exercise, it may materially adversely affect our future revenues if Microsoft or any company to which Microsoft sells or licenses the technology uses it to directly compete with us.

In addition, Microsoft has the right to obtain more limited rights to the source code in the event ATA is in continuing breach of any of its obligations regarding technical support and correction of programming errors. Upon the occurrence of a continuing breach, Microsoft would obtain the right to freely install, make, use, reproduce, copy, modify, translate, edit and otherwise create derivative works of the DST source code and to sublicense any of the foregoing rights to third parties, excluding certain of our competitors in the computer-based testing services market.

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***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 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 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.

***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 software 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 marks. 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 are 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 acquisitions, including identifying suitable opportunities and integrating acquired 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. However, our ability to implement our acquisition 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 agreement with acquisition candidates or joint venture partners on commercially reasonable terms, and the availability of financing to complete acquisitions or joint ventures as well as our ability to obtain any required government approvals or licenses. In addition, we cannot assure you that any particular acquisition or joint venture transaction will produce the intended benefits or synergies. For example, we may not be successful in integrating acquisitions with our existing operations and personnel. Moreover, the acquisitions 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;

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- 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 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 demand or competitive challenges.***

Capital requirements are difficult to plan in our rapidly changing industry. 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:

- investors' perception of, and demand for, securities of computer-based testing and education companies;
- conditions of the U.S. and other capital markets in which we may seek to raise funds;

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- our future results of operations and financial condition;
- Chinese government regulation of foreign investment in China;
- economic, political and other conditions in China; and
- Chinese government policies relating to the borrowing and remittance outside China of foreign currency.

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. In addition, our independent registered public accounting firm must attest to and report on the operating effectiveness of our internal control over financial reporting. While our management concluded that our internal control over financial reporting is effective as of March 31, 2012, and our independent registered public accounting firm reported on our internal controls over financial reporting, our management may conclude in the future that our internal controls are not effective. Our failure to maintain effective

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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 annual 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, 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) (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. Our operations are conducted in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities. Accordingly, any audit documentation located in China related to our independent registered public accounting firm's reports included in our filings with the U.S. Securities and Exchange Commission is not currently inspected by the PCAOB.

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. This 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.

***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 ordinary shares.***

We believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended March 31, 2012, 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 ordinary 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 ordinary shares, certain adverse U.S. federal income tax consequences would apply to the U.S. investor. See Item 10. Additional Information E. Taxation United States Federal

Income Taxation    Passive Foreign Investment Company.

**Risks Relating to Regulation of Our Business**

*Substantial uncertainties and restrictions exist with respect to the application and implementation of Chinese laws and regulations relating to Internet content distribution. If the Chinese government finds that the structure for our online test preparation services and other services we provide through the Internet do not comply with Chinese laws and regulations, we could be subject to penalties and may not be able to continue those businesses.*

The Chinese government regulates internet access, the distribution of online information, the conduct of online commerce and the provision of online services through strict business licensing requirements and other government regulations. These laws and regulations also include limitations on foreign ownership of Chinese companies that provide Internet content. Specifically, foreign investors are not allowed to own more than a 50% equity interest in any Chinese company engaging in Internet content provision.

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Because we are a Cayman Islands company, we and our Chinese subsidiaries and their branch companies in China are treated as foreign or foreign-invested enterprises under Chinese laws and regulations. To comply with Chinese laws and regulations, we conduct our online businesses in China through a series of contractual arrangements entered into among ATA Testing Authority (Holdings) Limited, or ATA BVI, ATA Learning (Beijing) Inc., or ATA Learning and ATA Online (Beijing) Education Technology Limited, or ATA Online, which is a domestic Chinese company incorporated in the PRC and owned by Kevin Xiaofeng Ma, our co-founder, chairman and chief executive officer and Walter Lin Wang, our co-founder, director and president. Our contractual arrangements with ATA Online include a technical support agreement and a strategic consulting service agreement. These contractual arrangements also include an equity pledge agreement entered into with each of the shareholders of ATA Online and a call option and cooperation agreement entered into with ATA Online and its shareholders. Under PRC law, a pledge of equity interests can only be valid after such pledge is registered at the relevant agency. Upon such registration, we may enforce the pledge by foreclosing on the pledge equity interest to recover amounts due in the event of breach by ATA Online of the technical support agreement, strategic consulting service agreement or covenants under the equity pledge agreement. The equity pledges under the equity pledge agreement were registered with the relevant local authority, Haidian Branch of Beijing Administration for Industry and Commerce, on April 25, 2012.

In or around September 2011, various media sources reported that the China Securities Regulatory Commission, or the CSRC, had prepared a report proposing pre-approval by a competent central government authority of offshore listings by China-based companies with variable interest entity structures, such as ours, that operate in industry sectors subject to foreign investment restrictions. However, it is unclear whether the CSRC officially issued or submitted such a report to a higher level government authority or what any such report provides, or whether any new PRC laws or regulations relating to variable interest entity structures will be adopted or if adopted, what they would provide. In addition, the Notice on Establishing a Security Review System for Merger and Acquisition of Domestic Enterprises by Foreign Investors, which was promulgated by MOFCOM and became effective on September 1, 2011, require acquisitions by foreign investors of PRC companies engaged in military related or certain other industries that are crucial to national security be subject to security review before consummation of any such acquisition. According to Industry list of Security Review System for Merger and Acquisition of Domestic Enterprises by Foreign Investors, industries relating to our business, such as other storage, telecom and other information transfer services, may fall under the purview of the national security review rules.

ATA Online holds a Telecommunications and Information Services Operating License, or ICP license, issued by the Beijing Telecommunications Administration Bureau, a local branch of the Ministry of Industry and Information Technology, or MIIT, which allows ATA Online to provide Internet content distribution services. This license is essential to the operation of our online test preparation and training services business.

The relevant Chinese regulatory authorities have broad discretion in determining whether a particular contractual structure is in violation of Chinese law. If our ATA Online corporate and contractual structure is deemed by MIIT to be illegal, either in whole or in part, we may have to modify such structure to comply with regulatory requirements. However, we cannot assure you that we can achieve this without material disruption to our business. Further, if our ATA Online corporate and contractual structure is found to be in violation of any existing or future Chinese laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including:

- revoking our business and operating licenses;
  
- levying fines on us;

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- confiscating any of our income that they deem to be obtained through illegal operations;
- shutting down a portion or all of our servers or blocking a portion or all of our web site;
- discontinuing or restricting our operations in China;
- imposing conditions or requirements with which we may not be able to comply;
- requiring us to restructure our corporate and contractual structure;

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- restricting or prohibiting our use of the proceeds from our initial public offering to finance ATA Online's business and operations; and
- taking other regulatory or enforcement actions that could be harmful to our business.

The occurrence of any of these events could materially and adversely affect our business, financial condition and results of operations.

***Our contractual arrangements with ATA Online may be subject to scrutiny by the Chinese tax authorities and create a potential double layer of taxation for our revenue-generating services conducted by ATA Online.***

We could face material and adverse tax consequences if the Chinese tax authorities determine that our contractual arrangements with ATA Online were not priced at arm's length for purposes of determining tax liability. If the Chinese tax authorities determine that these contracts were not entered into on an arm's-length basis, they may adjust our income and expenses for Chinese tax purposes in the form of a transfer pricing adjustment. A transfer pricing adjustment could result in a reduction, for Chinese tax purposes, of deductions recorded by ATA Online, which could adversely affect us by increasing the tax liabilities of ATA Online. This increased tax liability could further result in late payment fees and other penalties to ATA Online for underpaid taxes. Any payments we make under these arrangements or adjustments in payments under these arrangements that we may decide to make in the future will be subject to the same risk.

To date, no specific prices for the services to be performed by ATA Learning (Beijing) Inc., or ATA Learning, under the contractual arrangements have been set, and no payments have been invoiced or made under any of the contracts between ATA Learning and ATA Online. Prices for such services will be set prospectively and therefore we do not currently have a basis to believe that any of the payments to be made under the contracts will or will not be considered arm's length for purposes of determining tax liability. Prior to setting prices and terms under the contracts, we intend to engage a third party to review any proposed prices and terms to determine whether they would qualify as arm's-length.

***Our contractual arrangements with ATA Online and its shareholders do not provide us with ownership interest in ATA Online. If ATA Online or its shareholders fail to perform their respective obligations under these contractual arrangements, we may have to legally enforce such arrangements and our business, financial condition and results of operations may be materially and adversely affected if these arrangements cannot be enforced.***

Because of PRC restrictions on foreign ownership of Internet-based businesses in China, we depend on a series of contractual arrangements with ATA Online, in which we have no equity ownership interest, to conduct our online businesses. These contractual arrangements include loan agreements, technical support agreement, strategic consulting service agreement, call option and cooperation agreement, and equity pledge agreement. They are intended to provide us with the power to direct the activities of ATA Online that most significantly impact ATA Online's performance and allow us to obtain the economic benefits from ATA Online, but may not be as effective in providing control over ATA Online as equity ownership. For example, ATA Online and its shareholders could breach the terms of the contractual arrangements by, among other things, failing to operate our online businesses in an acceptable manner or taking other actions that are detrimental to our interests. As a protection against such risks, ATA Online and its shareholders are prohibited under the contractual arrangements from engaging in certain activities without our consent, including a prohibition on any transfer by ATA Online's shareholders of their equity interest in ATA Online and a prohibition on ATA Online entering into similar technical support and strategic consulting agreements with third parties. In addition, we have the exclusive option to purchase or have our designee purchase each shareholder's equity interest in ATA Online at any time so long as such



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purchase is in compliance with PRC laws. Due to restrictions under PRC law on foreign ownership of Internet-based businesses in China, we are not permitted to exercise the exclusive option to directly purchase ATA Online's equity interests. There are no material restrictions under PRC law if we were to designate PRC citizens or non-foreign-invested PRC enterprises as our designees to purchase ATA Online's equity interests or assets.

The shareholders of ATA Online have pledged their entire equity interest in ATA Online to ATA Learning to guarantee ATA Online's and its shareholders' performance of their obligations under the technical support agreement and the strategic consulting service agreement. However, pursuant to the Property Law of the PRC, a pledge must be registered with the competent local branch of the State Administration of Industry and Commerce after the execution of the relevant pledge agreement. The equity pledges under the equity pledge agreement were registered with the relevant local authority, Haidian Branch of Beijing Administration for Industry and Commerce, on April 25, 2012. The enforceability of the equity pledge agreement is not subject to registration and is independent and

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separate from the enforceability of the equity pledges. Therefore, even without having registered the equity pledges, we could bring a claim for damages in case of any breach of ATA Online's covenants under the equity pledge agreement.

Although we have significant protections under the contractual arrangements, if ATA Online or its shareholders fail to perform their obligations under the contractual arrangements, we may have to resort to litigation or other contract remedies to enforce our rights, which may be time-consuming, unpredictable, expensive and damaging to our operations and reputation. For example, if the shareholders of ATA Online were to refuse to transfer their equity interest to us or our designated persons when we exercise the call option, we may have to take legal action to compel them to fulfill their contractual obligations. All of these contractual arrangements are governed by PRC or Hong Kong Law and provide for the resolution of disputes through binding arbitration in China. The legal framework and system in China is not as developed as other jurisdictions such as the United States. As a result, significant uncertainties relating to the enforcement of legal rights through arbitration, litigation and other legal proceedings remain in China, which could limit our ability to enforce the contractual arrangements and exert effective control over our consolidated affiliated entity. In addition, a PRC court may refuse to enforce the contractual arrangements on the grounds that they are designed to circumvent PRC foreign investment restrictions and therefore are against PRC public policy. If we are unable to enforce the contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing the contractual arrangements, our business and operations could be significantly disrupted, which could materially and adversely affect our results of operations and damage our reputation.

***The shareholders of ATA Online may have potential conflicts of interest with us, which may materially and adversely affect our business and financial condition.***

The shareholders of ATA Online, Kevin Xiaofeng Ma and Walter Lin Wang, are also beneficial holders of our common shares. They are also directors of both ATA Online and our company. Conflicts of interests between their dual roles as shareholders and directors of both ATA Online and our company may arise. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or that conflicts of interests will be resolved in our favor. In addition, these individuals may breach or cause ATA Online to breach or refuse to renew the existing contractual arrangements that allow us to receive economic benefits from ATA Online. Currently, we do not have existing arrangements to address potential conflicts of interest between these individuals and our company. We rely on these individuals to abide by the laws of the Cayman Islands and China, both of which provide that directors owe a fiduciary duty to the company, which requires them to act in good faith and in the best interests of the company and not to use their positions for personal gain. If we cannot resolve any conflicts of interest or disputes between us and the shareholders of ATA Online, we would have to rely on legal proceedings, which could result in disruption of our business and substantial uncertainty as to the outcome of any such legal proceedings.

***We may lose the ability to use and enjoy assets held by ATA Online that are important to the operation of our business if ATA Online goes bankrupt or becomes subject to a dissolution or liquidation proceeding.***

To comply with PRC laws and regulations relating to foreign ownership restrictions in the Internet content distribution businesses, we currently conduct our operations in China through contractual arrangements with ATA Online. As part of these arrangements, ATA Online holds certain of the assets that are important to the operation of our online test preparation business. We have not entered into any pledge agreements with respect to the underlying assets as collateral to secure the responsibilities of ATA Online. We have, however, entered into a call option and cooperation agreement under which our wholly owned subsidiary, ATA BVI, has an exclusive purchase option to acquire the entirety or any portion of ATA Online's equity interest or the assets owned by ATA Online, exercisable at ATA BVI's discretion. Nonetheless, if ATA Online goes bankrupt and all or part of its assets become subject to license or rights of third-party creditors, we may be unable to continue some or all of our online test preparation business operations, which could materially and adversely affect our business, financial condition and results of operations.

If ATA Online undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of its assets, thereby hindering our ability to operate our online test preparation business. We can take part in the liquidation procedures as a general creditor pursuant to PRC law and to recover any outstanding liabilities owed by ATA Online to our wholly owned subsidiaries under the contractual arrangements. We could also enforce the pledges contained in the equity pledge agreement entered into with each of the shareholders of ATA Online against ATA Online's shareholders and dispose the pledged equity to indemnify any losses under the technical support agreement and strategic consulting service agreement with priority over any unsecured creditors of ATA Online's shareholders.

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***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 web site 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 and (ii) our contractual arrangements with ATA Online do not constitute the acquisition of ATA Online. 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 March 31, 2012, our Chinese subsidiaries allocated RMB10.6 million (\$1.7 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.***

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Effective from January 1, 2008, the new PRC Enterprise Income Tax Law, or New 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.

Under the New 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. In December 2008, ATA Testing was recognized as a 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% retroactively for calendar years 2011 to 2013. In December 2009, each of ATA Learning, ATA Online and 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. ATA Learning, ATA Online and Beijing JDX are currently in the process of renewing their HNTE certificates for another three years. Upon successful renewal, ATA Learning, ATA Online and Beijing JDX should be entitled to a preferential tax rate of 15% retroactively from January 1, 2012. In the event ATA Learning, ATA Online and Beijing JDX are unable to renew their HNTE certificates, they

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will be subject to the standard statutory enterprise income tax rate of 25%. Although we currently expect ATA Learning, ATA Online and Beijing JDX to continue to qualify as HNTE, we cannot assure you that ATA Learning, ATA Online and Beijing JDX will continue to qualify as an HNTE, 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 New 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 ordinary shares.*

Under the New 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, or Circular 82, 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 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 New 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 New 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 ordinary 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.

*Chinese regulation of loans and direct investments by offshore holding companies or their Chinese subsidiaries or affiliates 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, through loans or capital contributions, and in our affiliated PRC entity, ATA Online, through loans. Under applicable Chinese laws, any loan made by us to

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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. We may also decide to finance ATA Testing by increasing their registered capital through capital contributions. The Ministry of Commerce or its local counterpart must approve any capital contributions to ATA Testing or ATA Learning.

In 2008, SAFE promulgated the Circular on the Relevant Operating Issues concerning Administration Improvement of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises, or Circular 142, a notice regulating the conversion by a foreign-invested enterprise, or FIE, of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 142 requires that Renminbi converted from the foreign currency-denominated capital of a FIE may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specified otherwise in its business scope. For example, such converted amounts may not be used for investments in or acquisitions of other companies, which can inhibit the ability of companies to consummate such transactions. In addition, SAFE strengthened its oversight of the flow and use of Renminbi funds converted from the foreign currency-denominated capital of FIEs under Circular 142. The use of such Renminbi may not be changed without approval from SAFE, and may not be used to repay Renminbi loans if the proceeds of such loans have not yet been utilized. Violations of Circular 142 will result in severe penalties, including heavy fines. As a result, Circular 142 may limit our ability to convert net proceeds raised in subsequent offerings or financings by our overseas companies into Renminbi and use such net proceeds in investments or acquisitions of other companies, which may adversely affect our liquidity and our ability to fund and expand our business in China.

A failure by us to obtain the necessary government approvals or complete any required registrations 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.

***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 liability under Chinese laws, which could adversely affect our business and prospects.***

In October 2005, SAFE, issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. Notice 75 states that Chinese residents must register with the relevant local SAFE branch in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving a round-trip investment whereby the offshore entity acquires or controls onshore assets or equity interests held by the Chinese residents. Notice 75 applies to our shareholders who are Chinese residents and also applies to our offshore acquisitions. On May 29, 2007, SAFE issued the Notice of Operation Guidance for Notice 75, or Notice 106, according to which Chinese resident shareholders in an offshore company which has at least two years' operating history and has made investment in China can apply for registration under Notice 75. There is no deadline for such registration.

Two of our major shareholders, Kevin Xiaofeng Ma and Walter Lin Wang, have completed their registrations with SAFE, and we have urged our other Chinese resident shareholders to register under Notice 75 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 Notice 75 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 **Risks Relating to Regulation 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.





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**Risks Relating to the People's Republic of China**

*Chinese 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 embodies 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. In 1979, the Chinese government began to promulgate 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 Testing and ATA Learning, are wholly foreign-owned enterprises, which are enterprises incorporated in China and wholly owned by foreign investors, and both 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 affiliated entity, 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. For example, 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. In addition, confidentiality protections in China may not be as effective as in the United States or other countries. 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.*

A substantial 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. Pursuant to the relevant regulations, a company applying for the remittance of dividends should provide to the bank handling the remittance: (i) proof of taxes paid, (ii) an audit report on the status of dividends, (iii) the relevant company's foreign exchange registration certificate, (iv) a capital verification report issued by an accounting firm, and (v) an audit report on the company's financial condition during the current year. These procedural requirements generally do not pose any risk to a wholly foreign-owned company's ability to remit dividends to its offshore parent. However, should SAFE focus on our use of the variable interest entity structure for ATA Online during the approval or registration process, there is a risk that it may disapprove remittance of dividends or other capital account transactions in order to enforce the restrictions against foreign investment in online education business under the Guidance Catalogue of Industries for Foreign Investment. 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

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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.

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 the convertibility of the 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 the U.S. dollar and Renminbi will affect our balance sheet and earnings per share in U.S. dollars. In addition, appreciation or depreciation in the 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 the 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. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. However, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Since reaching a high against the U.S. dollar in July 2008, however, the Renminbi has traded within a narrow range against the U.S. dollar. On June 19, 2010, the People's Bank of China announced the removal of the de facto peg. Following this announcement, the Renminbi has appreciated modestly, from 6.7968 Renminbi per U.S. dollar on June 21, 2010 to 6.3692 Renminbi per U.S. dollar on June 1, 2012.

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 development. In recent years, there have been reports on the occurrences of avian influenza in

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various parts of China and neighboring countries, including a few confirmed human cases. China reported the occurrence of a number of cases of H1N1 virus in China related to the global outbreak of H1N1 that began in the first half of 2009. Any prolonged recurrence of an 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.

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**Risks Relating to Our ADSs**

*Our ADS price and the ADS or stock prices of other 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, 2011 and June 1, 2012, our ADS price as reported on Nasdaq ranged between a low of \$5.35 and a high of \$13.09. 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. In recent years, a number of Chinese companies have listed their securities, or are in the process of preparing for listing their securities, on U.S. stock markets. Some of these companies have experienced significant volatility, including significant price declines in connection with their initial public offerings. 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 for 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 in our ADSs for the three-month period ended May 30, 2012 was approximately 3,651 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.

*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 June 6, 2012, there are 45,962,376 common shares outstanding. In addition, there were outstanding options to purchase an aggregate of 2,788,342 common shares, including options to purchase an aggregate of 2,650,842 common shares immediately exercisable as of June 6, 2012.

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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 annual report 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, the lock-up agreements described below 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.

*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.*

Four of our existing shareholders, Kevin Xiaofeng Ma, Lijun Mai, Walter Lin Wang and SB Asia Investment Fund II L.P., beneficially own, collectively, approximately 62.7% of our outstanding common shares as of June 6, 2012. Each of these shareholders is an affiliate within the meaning of the Securities Act, due to the size of their respective shareholdings in us. SB Asia Investment Fund II L.P. has one board representative on our five-director board, and beneficially owns approximately 33.0% of our outstanding common shares as of June 6, 2012. Accordingly, these shareholders have 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 these shareholders, we could be prevented from entering into transactions that could be beneficial to us.

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***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 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.

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;
- 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.

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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 law 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

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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

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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.

**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 that 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. 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 interest of Beijing Jindixin Software Technology Company Limited, or 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.

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For additional information on our organizational structure, see Item 4.C. Organizational Structure.

Our principal executive offices are located at 8th Floor, Tower E, 6 Gongyuan West Street, Jian Guo Men Nei, Beijing 100005, People's Republic of China, and our telephone number is (86-10) 6518-1122. Our web site address is <http://www.ata.net.cn>. The information on our web site does not form a part of this annual 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 in CT Corporation System, located at 111 Eight Avenue, New York, New York 10011.

### **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, securities, teaching and insurance. Our computer-based testing services clients principally include professional associations, such as

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the SAC, China Banking Association and China Futures Association, and Chinese governmental agencies, including the PRC Ministry of Human Resources and Social Security.

Our test center network, which we believe is the largest test center network of any commercial testing service provider in China, comprised 2,462 authorized test centers located throughout China as of March 31, 2012. 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 March 31, 2012, we have delivered approximately 50.0 million tests, including approximately 10.9 million free tests for business development purposes. Over the course of two days on June 2 and June 3, 2012, we delivered tests to more than 790,000 test takers for the China Banking Association, demonstrating our ability to administer computer-based tests across the country on a massive scale through our nationwide test delivery platform. During the fiscal year ended March 31, 2012, approximately 8.5 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 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 test content creation and management technologies include our Dynamic Simulation Technology, an advanced performance-based testing technology which leading IT certification sponsors, including Microsoft, have adopted for their computer-simulated tests given around the world. We have also developed content creation technologies for the conversion of paper-based tests into computer-based formats.

Leveraging our testing platform, technologies and expertise, we have expanded our service offerings beyond our core computer-based testing services to include other test-focused services. We offer targeted test preparation and training solutions for certain professional licensure and certification tests in the securities and teaching industries. ATA Online has launched online training web sites in coordination with the SAC and the China Futures Association to help candidates across China attain continuing educational requirement after their professional licensure and certification tests, which are delivered through our test delivery platform. In March 2009, we launched HR Select, our self-developed online system that utilizes our proprietary software and a large inventory of 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. Since March 2009, we have been the exclusive agent for delivering the Test of English for International Communication, or TOEIC, in China.

Our total net revenues increased from RMB245.0 million in the fiscal year ended March 31, 2010 to RMB303.9 million in the fiscal year ended March 31, 2011 and RMB352.1 million (\$55.9 million) in the fiscal year ended March 31, 2012. We had net loss of RMB35.3 million in the fiscal year ended March 31, 2010 and net income of RMB19.8 million in the fiscal year ended March 31, 2011 and RMB55.8 million (\$8.9 million) in the fiscal year ended March 31, 2012.

**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

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technologies and software applications for the creation of sophisticated computer-based tests, including advanced performance-based tests. While we still 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 in the future. For example, we successfully helped the General Administration of Customs, or China Customs, to transfer from paper-based testing to computer-based testing for its unified national customs declarer certification test in 175 cities in November 2011. 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 is 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 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 1,000,000 tests per day using our 75 servers, which can be increased to enlarge capacity. We periodically upgrade our equipment and software applications to handle increasing testing volume as required.

**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 China and in Macao, which we refer to as our ATA authorized test centers. As of March 31, 2012, we had contractual relationships with 2,462 ATA authorized test centers, of which 1,134 hosted tests delivered through our testing platform within the last 24-month period and 1,462 possess the right to use our ATA brand name and logo. 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.

The following map shows the geographic distribution of our ATA authorized test centers as of March 31, 2012:



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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 dependability of the centers. Under our contracts with the test centers, we license our ATA E-testing platform technology and provide ongoing technical support and training 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 annual continuing license fees. Under either fee arrangement, our licensees can extend their licensing agreement with us 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.

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Our Dynamic Simulation Technology is a performance-based testing technology that provides the format for creating, illustrating, running and scoring 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, as shown in the table below:

	First Generation	Second Generation	Third Generation	Fourth Generation	Fifth Generation
Year Developed	• 1999	• 2000	• 2002	• 2004	• 2007
Type	• Page-based Simulation	• Enhanced Page-based Simulation	• Simulator-based Simulation	• Interpreter-based Simulation	• Enhanced Interpreter-based Simulation
Characteristics	• Most simulation user interfaces implemented using screen-captures	• Image compressing technology used to reduce size of normal page-based simulation. Active elements added to improve user experience	• Simulation produced through programming rather than screen captures, allowing greater flexibility and more complex functionality	• Can interpret and respond to user operations and simulate most types of software with less programming work	• Incorporates various Rich Media Technologies  • Deployable on standard browsers

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 of over eight languages have been delivered through this technology around the world.

We have also developed 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. We have also developed our ATA Markup Language 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. For instance, we have developed test engine applications that allow running Dynamic Simulation Technology tests on our own test delivery platform, on Microsoft's test port and on other test platforms.

All of our computer-based testing technologies have been developed in-house, and none incorporates any third-party intellectual property.

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,

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such as Microsoft, Citrix and 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 creation, delivery and analysis services.* Our test delivery platform and technologies allow us to offer our clients a comprehensive set of services for the creation, delivery and analysis of computer-based tests as well as logistical services such as test registration, scheduling and fee collection. We have assisted our clients with creating and delivering a wide range of computer-based tests, including professional association or licensure tests required by governmental agencies for positions within various governmental agencies or industry associations that test the competence of individuals who operate in certain industries that require technical expertise and which carry professional titles, such as:

- the Certification of China Banking Professionals Exam, designed and administered by the China Banking Association under the supervision of the China Banking Regulatory Commission;
- the Qualifications Exam for Individuals Engaged in the Securities Industry, designed and administered by the SAC under the supervision of the China Securities Regulatory Commission;
- the Insurance Agent Qualifications Exam, designed and administered by the Insurance Association of China under the supervision of the China Insurance Regulatory Commission;
- the National Security Guard Exam, designed and administered by the Ministry of Public Security of the People's Republic of China;
- IT vendor tests that assess the technical skills and competence of IT professionals in relation to specific types of IT applications, computer operating systems or other IT skill sets, and that allow test takers to obtain a professional license or certification in a specific subject area, job title or career path; and
- enterprise assessment tests that various enterprises use for recruitment and internal personnel assessment purposes.

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Utilizing our computer-based test content creation technologies, we assist our clients in developing sophisticated computer-based tests, including performance-based tests. Creation of effective and user-friendly computer-based tests involves a multi-step process, including:

- *Test design.* Our content development consultants work together with the client to determine the test purpose, intended audience, test objectives and required competency level to formulate an overall test outline. We then arrange for the client to work with our subject matter experts, or to 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 outline and using our advanced test engine technologies, we work together with subject matter experts to create test items designed to determine a test taker's proficiency and speed in solving both practical and conceptual problems. The test items are designed to support immediate test scoring and results analysis. Test items generally fall into two types: traditional items and performance-based items. Once all of the test items have been created, our content development consultants and subject matter experts commence a review 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 set test item parameters to be used for building up test item banks, which enable test forms to be formulated. Test forms with equal level of difficulty are generated from the test item bank based on the pre-defined blueprint of the test to ensure fairness across test forms.

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- *Final user acceptance beta test.* Before publication, the test undergoes a final user acceptance beta test during which volunteer test takers take the test and provide feedback. Based on the test results from the beta test, we are able to evaluate the efficacy of the test, eliminate problematic test items and otherwise fine tune the test items to ensure quality.
- *Continuous upgrades through 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 make upgrades 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 desired improvements are made in a timely manner.

Depending on the client's needs, we can perform some or all of the above steps for each 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 ATA E-testing platform. Computer-based tests can also be designed for delivery as on-going tests, which can be taken by the test taker at any time at his or her choice, for example by accessing the test from the client's web site, or as regularly scheduled tests, which must be taken by test takers at a specified time with advanced scheduling required.

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

- installing our ATA E-testing platform on the client's computer system to assist with centralizing administrative matters relating to the test or, in the case of repeat clients, upgrading the existing platform as necessary, for new tests;
- providing technical support throughout the testing process;
- uploading test information and performing test rehearsals and final testing environment control; and
- processing test scores, summarizing and analyzing test scores and 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 a client's individual needs. These support services include:

- managing test taker registration and scheduling;

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- managing test taker fee collection;
- arranging test stations and pre-test training of staff at each ATA authorized test center;
- providing test data management, such as test score publishing; and
- preparing and delivering certificates for test takers who have passed the test sponsor certification requirements.

We usually offer test content creation services and test delivery services as an integrated package 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 a 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.

*Distribution and administration of TOEIC exams in China.* Since March 2009, we have been the exclusive distributor and test administrator of TOEIC exams in China, which are operated by 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 has been used by over 10,000 companies, government agencies and English language learning programs in 120 countries, with more than six million TOEIC exams administered around the world each year. TOEIC has become the top professional English language assessment tool in the world, according to ETS.

TOEIC tests include large-scale tests open to the general public for a set fee as well as on-demand tests 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



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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 began also delivering computer-based TOEIC exams through our ATA authorized test center network and expect this trend towards more computer-based exams to continue in the future.

***Test Preparation and Training Solutions***

In late 2006, we began offering test preparation and training solutions by integrating our testing and assessment technologies with test preparation and training content targeted at professional licensure and certification tests in China. Building on our established reputation in, and in-depth understanding of, the Chinese market for professional licensure and certification tests in the securities, futures, banking, insurance and teaching industries, we began offering test preparation and training programs and services to test candidates preparing to take professional certification tests as well as candidates aiming to fulfill their continuing educational requirement after passing their licensure exams in these industries.

*Online test preparation and training platform for the securities and banking industries.* Leveraging the increased scale of ATA-delivered securities certification test, ATA Online launched an online test preparation Internet web site in coordination with the SAC to provide a flexible and scalable platform aimed at helping candidates across China to fulfill continuing educational requirement after passing their professional licensure and certification tests delivered by ATA. Test preparation and training customers gain access to Internet web sites that contain the latest training materials provided by the test sponsors and streaming video teaching sessions and practice tests developed by ATA. Since December 2011 the SAC has been in the process of assessing the feasibility to run its online training program internally rather than outsourcing its operation to us. In place of our previous contract under which we operated the online training program on behalf of the SAC, we have entered into a contract through March 2013 under which we will provide technical and services support during the assessment period. After March 2013, if the SAC decides not to recommence outsourcing the operation of its online training program, we expect to no longer provide such services to the SAC.

*NTET Tutorial Platform – test preparation software for the teaching industry.* Since 2006, we have offered software comprising a comprehensive set of training materials for preparing teachers for certification under the NTET test, which is conducted by China’s Ministry of Education and delivered through our test delivery platform and test center network. This software package, which we refer to as our NTET Tutorial Platform, is installed on a school’s computer system and offers teachers access to user-friendly and interactive tutorial programs, practice questions and learning exercises through the school’s intranet. We have had only minimal sales of our NTET Tutorial Platform software since October 2008 as a result of the delayed implementation of the national teachers’ licensure program. Further, we had no NTET sales in the fiscal year ended March 31, 2011 and 2012.

*Cambridge ESOL Young Learners English online tutorials.* In September 2008, we entered into a business partnership with the PRC Ministry of Education to develop and provide online tutorials to students enrolled in Cambridge ESOL’s Cambridge Young Learners English programs in China. The tutorials contain audio-visual study aids and practice items that we have developed in conjunction with the Institute of Online Education of Beijing Foreign Studies University. We began earning revenues from these online tutorials in September 2009.

***HR Select Employee Assessment Solution***

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In March 2009, we launched our self-developed HR Select employee assessment solution. HR Select is an online system that utilizes our proprietary software and a large inventory of test titles to help employers in China maximize the efficiency and accuracy of their employee recruitment process. HR Select covers the entire employee selection process from resume filtering to talent assessment and skills testing to test results analysis.

HR Select incorporates sophisticated database technologies for retaining and categorizing key candidate data, allowing human resource managers to effectively and efficiently process and filter a large number of candidate resumes. More importantly, we believe HR Select's platform for testing, comparing and analyzing general, industry-specific and position-specific capabilities and skill-sets makes it a unique offering in the market. Employers using HR Select can choose to adopt any of a multitude of evaluation parameters, including:

- General 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

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- Compatibility traits, which look at non-skills elements that indicate a candidate's likelihood of success, such as personal values, self-image, self-motivation and other personality traits.

HR Select leverages our computer-based testing technologies and expertise to allow employers to evaluate candidates on each of these parameters and to analyze and categorize the results to make effective recruitment decisions. 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. HR Select currently offers tailored evaluation tests for 600 positions with over 260 evaluation modules. For example, TOEIC and Saville, which is a career aptitude test, are available via the HR Select service to assess a candidate's business English skill and job aptitude, respectively. Employers may adopt ready-made tests available in the HR Select 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 standardization of recruitment criteria within industries. HR Select incorporates our computer-based testing technologies to 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 highly skill-intensive industries such as insurance and banking. By the end of the fiscal year ended March 31, 2011, the four largest Chinese state-owned banks have all become customers of our computer-based testing services that incorporate our HR Select solution. We expect to market HR Select to the large and growing small- and medium-enterprise market in China where recruitment resources are limited and where the consequences of poor hiring decisions are greater. Pricing starts at a volume-limited annual subscription, with additional fees charged depending on the volume, specific test titles utilized and whether ATA authorized test centers are used.

To complement our HR Select offerings, we signed an exclusive ten-year partnership agreement with Saville Consulting, a global human resources assessment firm whose products are available in over 80 countries, in August 2011 to deliver Saville's unique and proprietary psychometric measurement instruments and specialized aptitude tests 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, brand name test content.

### ***Career-Oriented Educational Services***

Our career-oriented educational services include single course programs, degree major course programs and pre-occupational training programs focusing on preparing students to pass IT and other vocational certification tests. Each single course program we offer is typically centered on a specific type of computer software application or other technology that requires significant training and practice to master and for which certification is offered. Our degree major course programs are designed to help graduates prepare for particular types of jobs and career paths. These programs are essentially combinations of multiple single course programs designed to help students acquire a cluster of skill sets. Generally, the entire degree major course program can be completed within two to three years and comprises all courses necessary for the student's college major. Our pre-occupational training programs provide students with a simulated internship environment replicating what these students would experience in an actual internship and that are designed to prepare students for actual job positions. A typical pre-occupational training program will last two to three months.

### **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

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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 view 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™ equipment, which permits real-time back-up. We encrypt all test item banks using our self-developed encryption algorithm, which prevents decryption or reverse engineering through the use of electronic fingerprinting, anti-tracking and trapping technologies.

### *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 or viewing 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 used along with the hardware dongle to complete decryption of test materials and commence the test.

### *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 prevents 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, 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 MD5 and Hash technologies. Following scoring, we store all test content and results on our firewall-protected central servers.

## **Intellectual Property**

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Intellectual property protections, including copyrights, trademarks and trade secrets are important to our success. We rely on copyright and trademark 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.

We have registered 117 software copyrights relevant to our product and service offerings with the Copyright Protection Center of China.

As of March 31, 2012, we have also registered 251 domain names relating to our web sites, including [www.ata.net.cn](http://www.ata.net.cn), the primary URL for our web site, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center, a domain name registration service provider in China.

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We have chosen not to obtain any patents for our testing technologies for a number of reasons. Principally, we believe that it is the industry norm in China not to obtain patents for technologies that are not in the form of hardware. The process for patenting technologies is cumbersome and generally takes approximately 18 months or more, and due to the prevalence of intellectual property infringement and relatively weak enforcement mechanisms in China, we believe that the risks involved in obtaining a patent, which would be publicly accessible, outweigh the potential benefits. Instead, our testing technologies 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 has attracted a broad base of clients. Our clients principally include Chinese governmental agencies, professional associations, well-known IT vendors and Chinese educational institutions as well as individual test preparation services consumers. The SAC and the China Banking Association accounted for 37.3% and 10.5%, respectively, of our total net revenues for the fiscal year ended March 31, 2012. No other client accounted for more than 10% of our total net revenues for the fiscal year ended March 31, 2012.

As of March 31, 2012, we had 334 contracts with test sponsors for our computer-based testing services. For the fiscal year ended March 31, 2012, our five largest computer-based testing services clients based on revenue were:

- the SAC, which has been designated by the China Securities Regulatory Commission as the sole administrator of securities industry qualification tests in China;
  
- the China Banking Association, which has been designated by the China Banking Regulatory Commission as the sole administrator of banking industry qualification tests in China;
  
- the Professional Skills Qualification Center of the PRC Ministry of Human Resources and Social Security;
  
- the China Futures Association, which has been designated by the China Securities Regulatory Commission as the sole administrator of futures industry qualification tests in China; and
  
- Agricultural Bank of China.

These five clients represented an aggregate of 63.8% of our total net revenues for the fiscal year ended March 31, 2012.

## **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 have identified 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 client's 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 test preparation 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 and product and service offerings. We conduct marketing for our career-oriented educational services



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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 IT vendors' certification tests together with our course programs and other career-oriented educational services, while linking both 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 connection with our launch of HR Select and distribution of TOEIC, we have redirected most of our educational services sales and marketing efforts since March 2009 to designing and operating marketing efforts toward private enterprises. We have launched advertising campaigns across all major resume service providers' web sites in China to market HR Select and TOEIC.

**Competition**

In the computer-based testing services market, we compete primarily on the basis of technology, price, management experience and established infrastructure. 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 the combination of our experience in and familiarity with the China computer-based testing services market, our advanced technology, our large nationwide network of test centers, our established relationships with key test sponsors and governmental agencies and our competitive cost levels.

We believe that we have the largest test center network of any commercial computer-based testing service provider in China. We had 2,462 authorized test centers in China, including centers in every province in China, as of March 31, 2012. To our knowledge, based on interactions with clients and others in the market, there are no other commercial computer-based testing service providers in China with a test center network as large as ours. 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 fiscal year ended March 31, 2012, approximately 8.5 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 1,000,000 tests per day.

For our HR Select employee assessment solution, while there are other companies providing services to corporate human resources departments, we are differentiated by our comprehensive service and focus on offering more professional testing services with proprietary testing 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 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.

**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.

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***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 law, 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 117 software copyrights with the Copyright Protection Center of China.

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. 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* and *The Decision to Enhance the Development of Vocational Education* published by the State Council on September 24, 2002 and October 28, 2005, 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.

***Restrictions on Telecommunications Industry***

The telecommunications industry, including computer information and internet access services, is highly regulated by the Chinese government. Regulations issued or implemented by the State Council, MIIT and other relevant government authorities cover virtually every aspect of telecommunications network operations, including entry into the telecommunications industry, the scope of permissible business activities, interconnection and transmission line arrangements, tariff policy and foreign investment.

Since March 1998, the National People's Congress of the PRC has directed MIIT to assume responsibility for, among other things:

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- formulating and enforcing telecommunications industry policy, standards and regulations;
- granting licenses to provide telecommunications and Internet services;
- formulating tariff and service charge policies for telecommunications and Internet services;
- supervising the operations of telecommunications and Internet service providers; and
- maintaining fair and orderly market competition among operators.

In addition to the regulations promulgated by the Chinese central government, some local governments have also promulgated local rules applicable to Internet companies operating within their respective jurisdictions.

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***Foreign Ownership Restrictions on Internet Content Provision Businesses***

In September 2000, the State Council promulgated the Telecommunications Regulations. The Telecommunications Regulations categorize all telecommunications businesses in China as either infrastructure telecommunications businesses or value-added telecommunications businesses. In February 2003, MIIT amended the original classification of telecommunications business with Internet content provision services being classified as value-added telecommunications businesses. The Telecommunications Regulations also set forth extensive guidelines with respect to different aspects of telecommunications operations in China.

In December 2001, in order to comply with China's commitments with respect to its entry into the World Trade Organization, the State Council promulgated the Administrative Rules on Foreign-Invested Telecommunications Enterprises, which was amended in September 2008. The Administrative Rules on Foreign-Invested Telecommunications Enterprises set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign invested telecommunications enterprise. Pursuant to the Administrative Rules on Foreign-Invested Telecommunications Enterprises, the ultimate capital contribution ratio of the foreign investor or investors in a foreign-funded telecommunications enterprise that provides value-added telecommunications services shall not exceed 50%. In addition, pursuant to the Foreign Investment Industrial Guidance Catalogue, the permitted foreign investment ratio of value-added telecommunications services is no more than 50%.

However, for a foreign investor to acquire any equity interest in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating a track record and experience in operating value-added telecommunication business overseas. Moreover, foreign investors that meet these requirements must obtain approvals from MIIT and the Ministry of Commerce or their authorized local counterparts, which retain considerable discretion in granting approvals.

On July 26, 2006, MIIT publicly released the Notice on Strengthening the Administration of Foreign Investment in Operating Value-added Telecom Business, dated July 13, 2006, or the MIIT Notice, which reiterates certain provisions under the 2002 Administrative Rules on Foreign-Invested Telecommunications Enterprises. According to the MIIT Notice, if any foreign investor intends to invest in a Chinese telecommunications business, a foreign-invested telecommunications enterprise shall be established and such enterprise shall apply for the relevant telecommunications business licenses. Under the MIIT Notice, domestic telecommunications enterprises are prohibited from renting, transferring or selling a telecommunications license to foreign investors in any form.

As a result of current Chinese laws and regulations that impose substantial restrictions on foreign investment in the Internet businesses in China, we conduct our online test preparation business in China through a series of contractual arrangements entered into among us, ATA Learning, and our newly formed affiliated PRC entity, ATA Online (Beijing) Education Technology Limited, or ATA Online, which is a domestic Chinese company incorporated in the PRC and owned by Kevin Xiaofeng Ma, our chairman and chief executive officer, and Walter Lin Wang, our director and president, both of whom are PRC citizens. See Item 4.C. Organizational Structure. ATA Online has obtained the licenses and approvals that are required to operate the online test preparation business.

Our contractual arrangements with ATA Online include a technical support agreement and a strategic consulting service agreement. In addition, ATA Learning has entered into an equity pledge agreement with each of the shareholders of ATA Online pursuant to which each of the shareholders has pledged all of his or her interest in ATA Online to ATA Learning as security for the performance of ATA Online's obligations under the technical support agreement and the strategic consulting service agreement. Under PRC law, a pledge of equity interest can only be valid after such pledge is registered with the relevant local branch of the State Administration of Industry and Commerce. Only such registration secures our interest in the equity as collateral. The equity pledges under the equity pledge agreement were registered with the relevant local

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authority, Haidian Branch of Beijing Administration for Industry and Commerce, on April 25, 2012. Pursuant to a call option and cooperation agreement with ATA Online and its shareholders, ATA BVI or any third party designated by ATA BVI has 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. However, we do not have any direct ownership interests or direct voting rights in ATA Online.

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

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- the ownership structures of ATA Online and our wholly owned subsidiaries in China are in compliance with existing published Chinese laws and regulations;
- our contractual arrangements among our wholly owned subsidiaries in China and ATA Online and its shareholders, are valid and binding, will not result in any material violation of published Chinese 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 annual 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 Chinese 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 Chinese regulatory authorities will not ultimately take a contrary view. If the Chinese government finds that the agreements that establish the structure of our operations in China do not comply with Chinese government restrictions on foreign investment in our industry, we could be subject to severe penalties.

***Internet Content Provider Licensure Requirements***

The provision of online test preparation services and content on Internet web sites is subject to Chinese laws and regulations relating to the telecommunications industry and the Internet, and regulated by various government authorities, including MIIT and the State Administration of Industry and Commerce, or SAIC. The principal regulations governing the telecommunications industry and the Internet include:

- The Telecommunications Regulations (2000);
- The Administrative Measures for Telecommunications Business Operating Licenses (2001); and
- The Internet Information Services Administrative Measures (2000).

Under these regulations, Internet content provision services are classified as value-added telecommunications businesses, and a commercial operator must obtain a Telecommunications and Information Services Operating License, or ICP license, from the appropriate telecommunications authority in order to carry out commercial Internet content provision operations in China. In addition, the regulations also provide that operators involved in Internet content provision that operate in sensitive and strategic sectors, including news, publishing, education, health care, medicine and medical devices, must obtain additional approvals from the relevant authorities in charge of those sectors.

Certain local governments have promulgated local rules applicable to Internet companies operating within their respective jurisdictions. In Beijing, the Beijing Administration of Industry and Commerce has promulgated a number of Internet-related rules. On October 31, 2004, a rule was enacted requiring owners of commercial web sites located within Beijing to file their commercial web sites with the Beijing Administration of Industry and Commerce.

ATA Online holds 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. This license is essential to the operation of ATA Online's online test preparation services business.

The MIIT Notice requires that a value-added telecommunications business operator (or its shareholders) should own any domain names and trademarks used by it to engage in the value-added telecommunications business, and have premises and facilities appropriate for such business. To comply with the MIIT Notice, we have transferred to ATA Online the domain names owned by our subsidiaries that are used principally in connection with our online business activities.

#### ***Regulation of Internet Content***

The Chinese government has promulgated measures relating to Internet content through a number of ministries and agencies, including the MIIT, the Ministry of Culture and the State Press and Publications Administration. These measures specifically prohibit



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Internet activities that result in the publication of any content that is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of China, or compromise State security or secrets. If an ICP license holder violates these measures, the Chinese government may revoke its ICP license and shut down its web sites.

On December 29, 2011, the MIIT promulgated Certain Rules on Regulating the Order of the Internet Information Service Market ( Internet Market Order Rules ), which became effective on March 15, 2012. The Internet Market Order Rules aim to regulate the order of the Internet information service market, protect the legitimate rights and interests of Internet information service providers and users, and promote the healthy development of the Internet industry. Pursuant to the Internet Market Order Rules, an Internet information service provider shall offer services under the principles of equality, voluntariness, fairness and integrity, and shall not commit acts infringing the legitimate rights and interests of other service providers such as maliciously interfering in services offered by other Internet information service providers at user terminals, or maliciously interfering in the downloading, installation, operation and upgrading of software and other products related to Internet information services, or refusing, postponing or ceasing to provide users with Internet information services or products without any proper reason. An Internet information service provider may be subject to administrative penalties, including warnings and fines and other legal liabilities, for violations of the Internet Market Order Rules.

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

Pursuant to the Administrative Regulations on Educational Web sites and Online and Distance Education Schools issued by the Ministry of Education in 2000, educational web sites 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 web sites refers to organizations providing education or education-related information services to web site 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 web sites providing academic education services or training services with the issuance of various certificates.

Setting up educational web sites and online education schools is subject to approval from relevant education authorities, depending on the specific types of education provided. Any educational web site and online education school shall, upon receipt of approval, indicate on its web site such approval information as well as the approval date and file number.

According to the Administrative License Law promulgated by the National People's Congress on August 27, 2003 and effective as of July 1, 2004, only laws promulgated by the National People's Congress and regulations and decisions promulgated by the State Council may set down administrative license requirements. 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 web sites was not retained. ATA Online is not required to obtain a license as an online education school because ATA Online does not intend to offer through its web site academic education services or training services that result in the issuance of a degree or other certification.

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

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The State Administration of Radio, Film and Television, or SARFT, promulgated the Rules for Administration of Broadcasting of Audio-Visual 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, integrating, transmitting and downloading of audio-visual 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-Visual 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 relating to cultural matters that prohibits private investments in businesses relating to the dissemination of audio-visual programs through information networks. On December 20, 2007, SARFT and MIIT jointly promulgated the Administrative Provisions on Internet Audio-Visual Program Service, or the Audio-Visual Service Provisions, which became effective on January 31, 2008. Pursuant to the Audio-Visual Service Provisions, a Permit for Disseminating Audio-Visual Programs via Information Network issued by the competent radio, film and television authority, or completion of the relevant filing formalities with such authority, is required to engage in the Internet audio-visual program service. One of the criteria that any entity applying to engage in the Internet audio-visual program service must meet is that such entity should be a wholly state-owned entity or state-controlled entity, which should have the legal status of legal person, and there is no record indicating that such entity has violated laws or regulations within three years prior to its application. According to the clarification by SARFT and MIIT in their Answers to

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Questions of Press regarding the Administrative Provisions on Internet Audio-Visual Program Service, entities that have been incorporated to engage in the Internet audio-visual program service in compliance with the applicable laws or regulations prior to the promulgation of the Audio-Visual Service Provisions and have no record of violating laws or regulations can re-register and continue their businesses. As these regulations are relatively new, there are significant uncertainties relating to their interpretation and implementation, including the definition of audio-visual programs as specified in these regulations. We cannot assure you that ATA Online will be able to obtain a Permit for Broadcasting Audio-Visual Programs via Information Network if it is determined that one is required to operate the online test preparation business.

***Regulation of Information Security***

Internet content in China is also regulated and restricted by the PRC government to protect State security. The National People's Congress, China's national legislative body, has enacted a law that may subject to criminal punishment in China 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.

The Ministry of Public Security has promulgated measures that prohibit use of the Internet in ways that, among other things, result in a leakage of State secrets or a spread of socially destabilizing content. The Ministry of Public Security has supervision and inspection rights in this regard, and we may be subject to the jurisdiction of the local security bureaus. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its web sites.

***Regulation of Domain Names and Web Site Names***

PRC law requires 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 use right over its domain name. Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. As of March 31, 2012, we have registered 251 domain names relating to our web sites, including www.ata.net.cn, the primary URL for our web site, 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 web sites to register their web site names with SAIC or its local offices and obtain a commercial web site name registration certificate. If any entity operates a commercial web site without obtaining such certificate, it may be charged a fine or suffer other penalties by the SAIC or its local offices. Our web sites used in connection with our testing and education services are considered non-commercial web sites as we do not provide products and services through those web sites, and therefore the names of those web sites are not required to be registered with SAIC. ATA Online has registered the web site name used in connection with the online test preparation business 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.

*Regulation of Foreign Exchange*

China's government imposes restrictions on the convertibility of the Renminbi and on the collection and use of foreign currency by Chinese 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 the PRC State Administration of Foreign Exchange, or SAFE.

Under current Chinese regulations, foreign-invested enterprises such as our Chinese subsidiaries are required to apply to SAFE for a Foreign Exchange Registration Certificate for Foreign-Invested Enterprise. With such a foreign exchange registration certificate (which is subject to review and renewal by SAFE on an annual basis), 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

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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.

Further, SAFE promulgated a 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 strengthened its oversight of the flow and use of the registered capital of a foreign-invested enterprise converted from foreign currencies and settled in Renminbi. The use of such Renminbi capital may not be changed without SAFE approval, and it may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used for purposes within the foreign-invested enterprise's approved business scope. Violations of Circular 142 may result in severe penalties, including substantial fines as set forth in the PRC Foreign Exchange Administrative Regulations.

According to Article 26 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.

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

In October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Notice 75, which became effective as of November 1, 2005. Notice 75 states that Chinese residents must register with the relevant local SAFE branch in connection with their establishment or control of an offshore entity established for the purpose of overseas equity financing involving a round-trip investment whereby the offshore entity acquires or controls onshore assets or equity interests held by the Chinese residents. Notice 75 applies to our shareholders who are Chinese residents and also applies to our offshore acquisitions. On May 29, 2007, SAFE issued the Notice of Operation Guidance for Notice 75, or Notice 106, according to which Chinese resident shareholders in an offshore company which has at least two years operating history and has made investment in China can apply for registration under Notice 75. There is no deadline for such registration.

Two of our major shareholders, Kevin Xiaofeng Ma and Walter Lin Wang, have completed their registrations with SAFE, and we have urged our other Chinese resident shareholders to register under Notice 75 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 Notice 75 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.

***Regulation of Overseas Listings***

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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. 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 web site 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 and (ii) our contractual arrangements with ATA Online do not constitute the acquisition of ATA Online. See Item 3.D. Key Information

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Risk Factors Risks Relating to Regulation 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.

**C. Organizational Structure**

**Corporate Structure and Arrangements with Our Affiliated PRC Entity**

The following diagram illustrates our corporate structure. Except for ATA BVI, which is incorporated in the British Virgin Islands, all of our subsidiaries and our affiliated PRC entity are incorporated in the PRC. For a detailed description of the Company's significant subsidiaries, see Item 4.A History and Development of the Company.

To comply with PRC laws and regulations restricting foreign ownership in distributors of Internet content, our online test preparation business in China is conducted through a series of contractual arrangements entered into among ATA BVI, ATA Learning and ATA Online (Beijing) Education Technology Limited, or ATA Online, a PRC entity incorporated in the PRC and owned by Kevin Xiaofeng Ma, our co-founder, chairman and chief executive officer and Walter Lin Wang, our co-founder, director and president, in the percentages described in the diagram above. ATA Online holds the license required to operate the online portion of our test preparation and training solutions business. We do not

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have any direct ownership interest or direct shareholding rights in ATA Online. For a detailed description of these contractual arrangements, see Item 7.B. Major Shareholders and Related Party Transactions Related Party Transactions. As a result of these contractual arrangements, under U.S. GAAP, we are considered the primary beneficiary of ATA Online. Accordingly, we consolidate ATA Online's results in our consolidated financial statements.

Our subsidiaries or ATA Online enter into commercial contracts with third party customers and clients based upon a judgment we make as to which entity is the appropriate entity for the provision of the type of service being offered. We primarily sell our testing services and the non-online portion of our test preparation and training solutions business through ATA Testing, our education services through ATA Learning and our online test preparation services through ATA Online.

For risks associated with our contractual arrangements with ATA Online and its shareholders, see Item 3.D. Key Information Risk Factors Risks Relating to Regulation of Our Business Substantial uncertainties and restrictions exist with respect to the application and implementation of Chinese laws and regulations relating to Internet content distribution. If the Chinese government finds that the structure for our online test preparation services and other services we provide through the Internet do not



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comply with Chinese laws and regulations, we could be subject to penalties and may not be able to continue those businesses. and Our contractual arrangements with ATA Online and its shareholders do not provide us with ownership interest in ATA Online. If ATA Online or its shareholders fail to perform their respective obligations under these contractual arrangements, we may have to legally enforce such arrangements and our business, financial condition and results of operations may be materially and adversely affected if these arrangements cannot be enforced.

**D. Property, Plant and Equipment**

Our principal executive offices are located in approximately 3,232 square meters of office space used by us at Tower E, 6 Gongyuan West Street, Jian Guo Men Nei, Beijing 100005, China, among which 2,170 square meters of office space are owned by us and 1,062 square meters of office space are leased by us. We also occupy approximately 3,530 square meters of total leased office space in our subsidiaries and branches located in Shanghai, Guangdong, Nanjing, Wuhan, Chengdu, Xi an and Shenzhen. We believe that 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 delivery platform, proprietary testing technologies and extensive experience providing testing services in China. We experienced significant growth in our business during the fiscal years ended March 31, 2010, 2011 and 2012. Our total net revenues increased from RMB245.0 million in the fiscal year ended March 31, 2010 to RMB303.9 million in the fiscal year ended March 31, 2011 and RMB352.1 (\$55.9 million) in the fiscal year ended March 31, 2012. We had a net loss of RMB35.3 million in the fiscal year ended March 31, 2010 and a net income of RMB19.8 million in the fiscal year ended March 31, 2011 and RMB 55.8 million (\$8.9million) in the fiscal year ended March 31, 2012.

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 and delivered using our testing technologies. Revenues from testing services accounted for 76.4%, 80.0% and 82.6% of our total net revenues in the fiscal years ended March 31, 2010, 2011 and 2012, respectively. We expect our testing services revenues to continue to be the largest source of our total net revenues as a result of new contracts with test sponsors in the banking, securities and other sectors. In March 2009, we launched HR Select, our self-developed online system that utilizes our proprietary software and a large inventory of 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. Since March 2009, we have been the exclusive agent for delivering the Test of English for International Communication, or TOEIC, 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, 2009, 2010, 2011 and 2012.

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Number of Exams Delivered (1)

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(1) *Includes Microsoft royalty tests overseas and tests delivered through our test delivery platform and tests using our Dynamic Simulation Technology. Also includes free tests delivered for business development purposes. The number of tests delivered excluding the free tests in the fiscal years ended March 31, 2009, 2010, 2011 and 2012 was 5,063,379, 5,760,147, 6,907,158 and 8,026,639, respectively.*

We also offer targeted test preparation and training solutions for certain professional licensure and certification tests in the securities and teaching industries. ATA Online has launched online test preparation and training Internet web sites in coordination with the SAC to help candidates across China fulfill their continuing educational requirement after passing their professional licensure and certification tests, which are delivered through our test delivery platform. Revenues from our test preparation and training solutions accounted for 4.6%, 5.1% and 7.7% of our total revenue in the fiscal years ended March 31, 2010, 2011 and 2012, respectively.

On February 28, 2009, the Company acquired Beijing JDX and JDX BVI for RMB10.7 million. Beijing JDX and JDX BVI are related companies incorporated in China and the British Virgin Islands, respectively, engaged in the development and marketing of software for computer-based tests. The results of Beijing JDX and JDX BVI have been included in our consolidated results since February 28, 2009. JDX BVI was dissolved in October 2009.

We operate our business and generate our net revenues primarily through our wholly owned subsidiaries in China, ATA Testing and ATA Learning. Due to PRC laws and regulations restricting foreign ownership in distributors of Internet content, we operate our online businesses, including our test preparation and training business and the online portion of our HR Select employee assessment solution program, and provide our computer-based testing services for the National Security Guard exam and China Customs exam through ATA Online, which we effectively control and enjoy the economic benefits through a series of contractual arrangements entered into among ATA BVI, ATA Learning, ATA Online and ATA Online's shareholders. We do not have any direct ownership interest or direct shareholding rights in ATA Online. ATA Online primarily holds assets related to the delivery of our online test preparation and training services, such as the Internet provider license, accounts receivable, prepaid expenses, and equipment. ATA Online had total assets of RMB41.3 million as of March 31, 2012. ATA Online generated net revenues of RMB49.8 million and a gross profit of RMB38.3 million for the year ended March 31, 2012. Its total operating expenses were RMB8.5 million for the year ended March 31, 2012. In addition, ATA Online had approximately RMB16.5 million in net cash provided by operating activities, RMB75,285 in net cash used in investing activities and RMB6.3 million in net cash used in financing activities for the year

ended March 31, 2012.

As a result of these contractual arrangements, under U.S. GAAP, we are considered the primary beneficiary of ATA Online. Accordingly, we consolidate ATA Online's results in our consolidated financial statements. However, these contractual arrangements may not be as effective as direct equity ownership in providing us with control over ATA Online.

We believe, based on the legal opinion obtained from 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. Accordingly, we cannot be assured that PRC regulatory authorities will not ultimately take a contrary view to its opinion. If our current ownership structure and the contractual arrangements are found to be in violation of any existing or future PRC laws and regulations, the PRC government could:

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

If the imposition of any of these government actions, or any inability to enforce the contractual arrangements in the event ATA Online or its shareholders breached their obligations under the contractual arrangements, causes us to lose the ability to direct the activities of ATA Online or receive substantially all the economic benefits and residual returns from ATA Online and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of ATA Online in our consolidated financial statements. In such a case, our total assets, total liability, equity, net sales, net income and cash flows would be materially less than the reported amount in our consolidated financial statements.

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

The key factors affecting our results of operations are:

- growth in China's professional services sector resulting in increasing demand for qualified and certified talent in China;

- overall economic growth and rising income levels in China contributing to increased 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 and educational program providers to outsource test content development and delivery for sophisticated computer-based and performance-based tests;
- the increasing importance of identifying qualified talent contributing to increasing demand for testing and certification programs that can confirm the qualifications of the applicant or job seeker;
- our ability to continue to introduce new services and the market success of our recently introduced services, including our HR Select service launched in March 2009, distribution and administration of TOEIC exams in China beginning in March 2009.

Although we anticipate the above factors will continue to increase demand 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:

- share-based compensation;
- the impact of PRC tax policies, including certain preferential tax rates and tax holidays;

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- sales and marketing efforts for our newer services, including our HR Select service and TOEIC business; and
- the relative proportion of our net revenues derived from higher-gross margin and lower-gross margin product and service offerings.

**Net Revenues**

We derive revenues from sale of computer-based testing services, test preparation and training solutions, and other products and services. Our net revenues are presented net of PRC business taxes. The following table sets forth a breakdown of our total net revenues for the periods.

	2010		For the fiscal year Ended March 31, 2011			2012	
	RMB	% of net revenues	RMB	% of net revenues	RMB	US\$	% of net revenues
<b>Net Revenues</b>			<b>(in thousands, except or percentages)</b>				
Testing services	187,158	76.4%	243,103	80.0%	290,881	46,190	82.6%
Test preparation and training solutions	11,149	4.6%	15,427	5.1%	26,996	4,287	7.7%
Other	46,725	19.0%	45,374	14.9%	34,208	5,432	9.7%
Total net revenues	245,032	100.0%	303,904	100.0%	352,085	55,909	100.0%

**Testing Services**

We derive testing services revenues primarily from fees charged to test sponsors for our test delivery services.

We generate test delivery services revenues through fees charged for providing computer-based testing services to test sponsors such as governmental agencies, and other sponsors of licensure and certification tests. We also offer testing services to private enterprises as part of our HR Select employee assessment solution and we are the exclusive distributor and test administrator of TOEIC exams in China. We offer our clients a comprehensive set of services for 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. 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. 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. Our clients typically pay us within two to six months after delivery of the test. We recognize revenue for test delivery services upon completion of the relevant test.

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.

*Significant Factors Affecting Testing Services*

The most significant factor directly affecting our revenues from fees charged for our testing services are the number of test takers. The number of test takers for a test 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. Growth in the number of enterprises adopting our HR Select service and the prevalence of the TOEIC exam in China also impact our testing services revenues. 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 engaged by a test sponsor to help deliver a particular test.

Demand and pricing for a test is affected by whether a certain profession, career or job position for which the certification, licensure or qualification test is being given 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



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employers, governmental policies that impact the relevant industry, or other factors. Tests that test proficiency in specific IT-related skill sets are particularly sensitive to changes in or the obsolescence of the relevant technologies.

In addition, obtaining contracts from test sponsors for new test titles and for upgrade of existing test titles often requires considerable time and resources. Many of our clients administer tests to a large number of people on a regular basis, and maintaining consistency and stability from year to year in 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 from 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 that test sponsor. This enables us to increase and diversify our revenues and to hinder competitors from obtaining contracts with that test sponsor.

***Test Preparation and Training Solutions***

We derive test preparation and training solutions revenue from the provision of online test preparation and training services.

ATA Online provides online test preparation and training for professional licensure and certification tests delivered through our testing platform for the SAC and China Futures Association. Revenues from online test preparation and training services are generated by selling online training to end users directly or through distributors on a consignment basis. The online training entitles the end users access to online test preparation and training services during a specified service period, which normally ranges between 90 to 180 days from the activation. Revenue of online membership is recognized on a straight-line basis ratably over the service period commencing at the point of time the online training is activated. If the online training sold to the end users are not activated before the expiration date, related online service revenue is recognized on the expiration date. In November 2011, we entered into a new contract with SAC to deliver online training platform development and maintenance service. Fees from online training platform development and maintenance service are recognized, when collectibility is reasonably assured, on a straight-line basis over the contractual period.

***Significant Factors Affecting Test Preparation and Training Solutions***

A number of factors affect our revenues from test preparation and training solutions. Demand for test preparation and training solutions for a particular test depends on the relative level of importance or difficulty of the test, with greater demand for test preparation and training solutions for more important and more difficult tests. Therefore, our ability to secure test delivery services contracts for more important and more difficult tests may affect our test preparation and training solutions business. As we generally offer test preparation and training solutions for tests that are delivered through our test delivery platform, our ability to grow our test preparation and training solutions business is also affected by the willingness of our test sponsor clients to permit us to provide test preparation and training solutions for their tests. Some test sponsor clients may not permit us to provide test preparation and training solutions in relation to tests for which we provide test delivery and other services due to a perceived conflict of interest. In addition, because we generally do not develop the learning content used in our test preparation and training solutions, our ability to license test preparation learning content and materials from the relevant test sponsor or third party content provider is critical to the expansion of the number of tests for which we offer test preparation and training solutions.

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Since December 2011 the SAC has been in the process of assessing the feasibility to run its online training program internally rather than outsourcing its operation to us. In place of our previous contract under which we operated the online training program on behalf of the SAC, we have entered into a contract through March 2013 under which we will provide technical and services support during the assessment period. We expect to receive revenues from test preparation services to the SAC in the fiscal year ending March 31, 2013 will be approximately RMB7.8 million, compared to RMB21.1 million in the fiscal year ended March 31, 2012. After March 2013, if the SAC decides not to recommence outsourcing the operation of its online training program, we expect to no longer provide such services to the SAC.

### *Other Revenues*

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

*Test-based educational services.* Our career-oriented educational services include single course programs, degree major course programs and pre-occupational training programs focusing on preparing students to pass IT and other vocational certification

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tests. These course programs package the testing and certification component of our testing services with licensed content and incorporate our advanced performance-based testing technologies to encourage hands-on real-world interactive learning experiences. We receive fees for these programs from educational institutions and generally charge a pre-agreed fee per student over the service period.

*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 generate revenues from our test content creation services through service fees charged to governmental agencies, such as China Customs, IT vendors and other sponsors of licensure, certification and qualification tests. We recognize revenue from our test content creation services upon the acceptance of the services by the client.

*Certificate delivery.* Many of our testing services clients, including well-known test sponsors, charge passing candidates a separate fee to receive a certificate for a test passed. We deliver these certificates to these candidates upon request. We charge a per-certificate price for the certificates and recognize revenues from certificate issuances upon delivery of the certificate.

*Licensing fees from ATA authorized test centers.* We have established our nationwide network of ATA authorized test centers by contracting with qualified independent operators that act as ATA authorized test centers for us. Under our contracts with test center operators, we license our ATA name and ATA E-testing platform technology and provide ongoing technical support, upgrades and training during the contract period in exchange for license fees. We receive license fees from our test center operators in the form of either a single initial license fee or a combination of initial license fee and annual continuing license fees.

*Test administration software products.* We offer our test administration software products to our clients. We deliver these software products, which are developed by us with all underlying intellectual property owned by us, to clients upon requests. We charge a per-software copy price for the software and recognize revenue upon delivery of the software.

*Other fees and services.* From time to time and as requested by our clients, we may provide teacher training services, IT consulting and system integration services, commission charges and other testing-related services to our clients. We recognize revenue upon completion of the services, which usually occurs within a short period of time. We may also receive payments for additional copies of training materials and test peripherals, for which we recognize revenue upon receiving cash.

**Cost of Revenues**

Our cost of revenues consists primarily of test monitoring costs, royalty fees for IT vendors and test sponsor licensing arrangements, payroll compensation, cost of inventories sold, technical support and other related costs, all of which are directly attributable to the provision of our testing services, test preparation and training solutions and our other products and services. The following table shows our cost of revenues and gross profit for the periods indicated:

**For the fiscal year Ended March 31,**

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	2010		2011			2012	
	RMB	%	RMB	%	RMB	US\$	%
	(in thousands, except for percentages)						
Net Revenues	245,032	100.0%	303,904	100.0%	352,085	55,909	100.0%
Cost of Revenues	129,535	52.9%	149,216	49.1%	158,818	25,219	45.1%
Gross Profit	115,497	47.1%	154,688	50.9%	193,267	30,690	54.9%

***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, for hire of test proctors, rental of testing facilities and a fee for the peripheral items used for the provision of our testing services, such as USB flash drives used for security control keys, computer cameras used during testing for communication and identification, compact discs used to store and deliver our testing software, and signage used to identify and brand our ATA authorized test centers.

***Royalty Fees***

Royalty fees consist of fees paid to IT vendors for the use of their proprietary content in our course programs and our computer-based tests, fees paid to ETS for the rights to be the exclusive country master distributor in mainland China for TOEIC, fees

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paid to SHL for the right to be used in the HR Select program, and license fees paid to Saville Consulting for its psychometric assessment tests.

For fees paid to IT vendors, we pay substantially all of these royalty fees under an enrollment model, whereby royalty fees are determined based on the number of students who enroll in the course.

***Payroll Compensation***

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

***Cost of Inventory***

Cost of inventory is comprised of cost of the printed learning material and test paper that are pre-printed by third parties and that we record as inventory and the cost of inventory write-down due to obsolescence. In the case of learning material, when a school contracts with us for degree major and single course programs, we deliver the related compact discs and textbooks and other course materials prior to the start of the course programs. These learning materials will be recognized as costs upon delivery. In the case of test paper, cost is recognized when the test papers are used in delivering the paper-based exam. Cost of inventory is recognized on a first-in-first-out basis.

***Factors Affecting Gross Margin***

Our gross margin is primarily affected by changes in gross margins from our testing services, which in turn are significantly affected by our revenue per test and test related costs, including the fees we pay for test monitoring to test centers. Our gross margin is also affected by the size of, and increases or decreases in, royalty payments to IT vendors and other content providers for our course programs.

**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***

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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.

### *Sales and Marketing Expenses*

Our sales and marketing expenses consist primarily of salaries and benefits, travel, 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, cost of outsourcing services and other costs relating to the design, development, testing and enhancement of our products 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 age of doubtful receivable, historical collection experience, and business partners' individual facts.

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**Taxation**

*Cayman Islands & British Virgin Islands*

Under the current laws of the Cayman Islands and the 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.

*People's Republic of China*

Our subsidiaries and our variable interest entity, or VIE, operating in the PRC are subject to PRC taxes as described below:

*Enterprise income tax.* Effective from January 1, 2008, the New 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 New EIT Law, qualified high-and-new technology enterprises eligible for key support from the State ( HNTTE ) are entitled to a preferential tax rate of 15% and subject to an annual review during the valid period of their HNTTE certificates. In December 2008, ATA Testing was recognized as a HNTTE and obtained a HNTTE certificate, which entitled ATA Testing to a preferential tax rate of 15% for calendar years from 2008 to 2010. ATA Testing successfully renewed its HNTTE certificate for another three years starting from 2011, and therefore it is entitled to a preferential tax rate of 15% retroactively from January 1, 2011 to December 31, 2013. In December 2009, each of ATA Learning, ATA Online and Beijing JDJ received approval from the tax authority that it qualified as an HNTTE for three years, entitling them to a preferential income tax rate of 15% for calendar years 2009 to 2011. ATA Learning, ATA Online and Beijing JDJ are currently in the process of renewing their HNTTE certificates for another three years. Upon successful renewal, ATA Learning, ATA Online and Beijing JDJ will be entitled to a preferential tax rate of 15% retroactively from January 1, 2012. In the event ATA Learning, ATA Online and Beijing JDJ are unable to renew their HNTTE certificates, they will be subject to the standard statutory enterprise income tax rate of 25%. See Item 3. Key Information D. Risk Factors Risks Relating to Regulation 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.

In addition, under the New 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 New 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 enterprises. We have preliminarily determined that our overseas entities are not PRC resident enterprises for PRC income tax purposes. However, if we and our overseas entity 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. Key Information D. Risk Factors Risks Relating to Regulation of Our Business Under the New 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 ordinary shares, and Item 10. Additional Information E. Taxation People's Republic of China Taxation.

In addition, the New EIT Law revokes 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

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between the PRC and other jurisdictions) will generally be applicable to dividends payable to foreign investors. To the extent we and our overseas entity are not considered as PRC resident enterprises, the dividends that our PRC subsidiary pay to us will be subject to this withholding tax. See Item 3. Key Information D. Risk Factors Risks Relating to Regulation of Our Business Under the New 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 ordinary shares. The undistributed earnings generated before January 1, 2008 shall be exempt from withholding tax when such earnings are distributed to the foreign investor in the year 2008 or thereafter. As of March 31, 2012, we have not provided for income taxes on accumulated earnings of RMB 106.9 million (\$17.0 million) generated by our PRC consolidated entities since January 1, 2008 as we plan to indefinitely reinvest these earnings in the PRC.

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 entity, as of March 31,



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2012, we provided full valuation allowance for their deferred income tax assets after consideration of the schedule reversal of existing deferred income tax liabilities.

*Value-added tax refunds.* Pursuant to a PRC tax policy intended to encourage the development of software and integrated circuit industries, ATA Testing and Beijing JDX are entitled to value-added tax rate at no more than 3% of the sale value of some of our software products. ATA Testing, ATA Learning and Beijing JDX are subject to value added tax at rates ranging from 3% to 17%.

*Business tax.* ATA Testing, ATA Learning, ATA Online and Beijing JDX are subject to business tax at a rate of 5%. We pay business tax on gross revenues generated from service and license fees at a rate of 5%. This business tax is included as a reduction of revenue in our consolidated statements of operations.

**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 amounts of our assets and liabilities, disclosure of contingent assets and liabilities on the date of each set of consolidated financial statements and the reported amounts 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, and 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:

- 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 years ended March 31, 2010, 2011 and 2012 is as follows:

	2010	For the fiscal year Ended March 31,			
	RMB	2011		2012	US\$
		RMB	RMB		
Beginning allowance for doubtful accounts	3,198,960	29,934,512	27,938,198		4,436,395
Additions charged to bad debt expense	27,052,862	2,235,627	2,350,990		373,321
Write-off of accounts receivable	(317,310)	(4,231,941)	(189,183)		(30,041)
Ending allowance for doubtful accounts	29,934,512	27,938,198	30,100,005		4,779,675

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The significant decrease in bad debt expense from March 31, 2010 to March 31, 2012 was primarily due to a bad debt charge related to accounts receivable from sales of our NTET Tutorial Platform software during fiscal year ended March 31, 2010.

*Intangible assets*

As of March 31, 2012, our intangible assets consisted of testing service technology, customer relationships and distribution license. We acquired the testing service technology and customer relationships through business acquisition and we acquired the distribution license directly from a vendor. Intangible assets are amortized on a straight-line basis over their respective estimated useful lives, which range from 3 to 12 years. We have no intangible assets with indefinite useful lives. The determination of the fair value of the intangible assets acquired involves certain judgments and estimates. These judgments can include, but are not limited to, the cash flows that an asset is expected to generate in the future. A change in the amount allocated to identifiable intangible assets would change the amount of amortization expense recognized related to those identifiable intangible assets. The fair values of our identifiable intangible assets were determined by management with the assistance of independent appraisers.

The testing service technology we acquired in a business combination was initially recognized at fair value. In estimating the fair value of the acquired testing related technology, the cost approach was utilized. Incorporated in the cost approach is the economic principle of substitution that states: an informed purchaser would pay no more for a property than the cost of purchasing or producing a substitute property with the same utility as the appraised property. We estimated the number of man-hours required to recreate the technology, which was multiplied by estimated hourly cost, to determine the replacement cost for the newly acquired technology. The estimated man-hour to recreate was based on a review of the man-hours incurred when the respective technology was originally created and our estimation of the effort required to recreate the software today. The development cost per hour figure represents the average hourly rate that would be paid to develop each software system today. After calculating the replacement cost for the newly acquired technology, a depreciation factor of 50% was applied to the calculated technological replacement cost to arrive at the fair value. The depreciation factor was based on the estimate of the frequency of significant changes to the technology, which was also used to estimate the remaining useful life of the technology.

The customer relationships we acquired in a business combination were initially recognized at fair value. The fair value of the customer relationships was estimated based on the excess cash flow method, a form of the income approach. The principle behind the excess cash flow method, through the use of a discounted cash flow, is that the value of an intangible asset is equal to the present value of the cash flow attributable only to that intangible asset. The excess cash flow method provides an estimate of the fair value of an intangible asset by deducting operating expenses and economic charges (contributory asset charges) from the revenue expected to be generated by the underlying asset. The projected cash flows are then discounted to their present value equivalent. The value of the tax amortization benefit is added to the sum of the present value of cash flows to arrive at the fair value of the subject intangible assets. We analyzed revenue by customer between 2003 through 2008 for historical patterns of attrition, the nature of customer relationships and typical customer life cycle to estimate the annual churn rate, or customer turnover rate, as 15%, which was then used to determine the cash flow period and remaining useful life of the customer relationships. The Capital Asset Pricing Model was adopted to determine the weighted average cost of capital.

In March 2009, we signed an agreement with Educational Testing Service (ETS) pursuant to which we are the exclusive agent for ETS's Test of English for International Communication (TOEIC) exam in China for ten years from March 2009. We paid ETS a \$3 million fee in March 2009 for such royalty, which will be amortized over the ten year contract period.

*Income Taxes*

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.

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As of March 31, 2012, we believe it is more likely than not that we will realize the deferred income tax assets, net of the valuation allowance of RMB 1.7 million. The amount of the deferred income tax assets considered realizable as of March 31, 2012 could be reduced in the near term if estimates of future taxable income are reduced.

For each of the year ended March 31, 2010, 2011 and 2012, 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 the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than RMB100,000. 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 the Company's PRC consolidated entities is subject to examination by the relevant tax authorities for the calendar tax years beginning in 2007.

**Share-Based Compensation to Employees**

The cost of all share-based payment transactions are recognized in our consolidated financial statements based on their grant-date fair value over the requisite service period, which is generally the period from the date of grant to the date when the share compensation is no longer contingent upon additional service from the employee, or the vesting period. For graded vesting share-based awards, we recognize the compensation cost over the requisite service period for each separately vesting portion of the award as if the award is, in substance, multiple awards. When no future services are required to be performed by the 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 (as measured based on the grant-date fair value of the equity instrument) is expensed on the grant date.

**Results of Operations**

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations and 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.

	2010		For the fiscal year Ended March 31,			2012	
	RMB	% of net revenues	RMB	% of net revenues	RMB	US\$	% of net revenues
	(In thousands, except for percentages and per share data)						
Net revenues:							
Testing services	187,158	76.4%	243,103	80.0%	290,881	46,190	82.6%
Test preparation and training solutions	11,149	4.6%	15,427	5.1%	26,996	4,287	7.7%

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Other	46,725	19.0%	45,374	14.9%	34,208	5,432	9.7%
<b>Total net revenues</b>	<b>245,032</b>	<b>100.0%</b>	<b>303,904</b>	<b>100.0%</b>	<b>352,085</b>	<b>55,909</b>	<b>100.0%</b>
Cost of revenues	129,535	52.9%	149,216	49.1%	158,818	25,219	45.1%
<b>Gross profit</b>	<b>115,497</b>	<b>47.1%</b>	<b>154,688</b>	<b>50.9%</b>	<b>193,267</b>	<b>30,690</b>	<b>54.9%</b>
Operating expenses:							
Research and development	22,708	9.3%	22,756	7.5%	18,402	2,922	5.2%
Sales and marketing	38,951	15.9%	54,382	17.9%	46,345	7,359	13.2%
General and administrative	56,840	23.2%	54,422	17.9%	61,683	9,796	17.5%
Provision for doubtful accounts	27,053	11.0%	2,236	0.7%	2,351	373	0.7%

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	2010		For the fiscal year Ended March 31, 2011			2012	
	RMB	% of net revenues	RMB	% of net revenues	RMB	US\$	% of net revenues
	(In thousands, except for percentages and per share data)						
<b>Total operating expenses</b>	<b>145,552</b>	<b>59.4%</b>	<b>133,796</b>	<b>44.0%</b>	<b>128,781</b>	<b>20,450</b>	<b>36.6%</b>
<b>Income (loss) from operations</b>	<b>(30,055)</b>	<b>(12.3)%</b>	<b>20,892</b>	<b>6.9%</b>	<b>64,486</b>	<b>10,240</b>	<b>18.3%</b>
Interest income	731	0.3%	1,036	0.3%	2,061	327	0.6%
Foreign currency exchange gains (losses), net	(284)	(0.1)%	1,138	0.4%	3,633	577	1.0%
Earnings (loss) before income tax	(29,608)	(12.1)%	23,066	7.6%	70,180	11,144	19.9%
Income tax expense	5,742	2.3%	3,312	1.1%	14,339	2,277	4.1%
<b>Net income (loss)</b>	<b>(35,350)</b>	<b>(14.4)%</b>	<b>19,754</b>	<b>6.5%</b>	<b>55,841</b>	<b>8,867</b>	<b>15.8%</b>

	2010		For the fiscal year Ended March 31, 2011			2012	
	RMB	RMB	RMB	RMB	US\$	US\$	
Basic earnings (loss) per common share	(0.79)	0.44	1.22	0.19	0.19	0.19	
Diluted earnings (loss) per common share	(0.79)	0.44	1.19	0.19	0.19	0.19	

**Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended March 31, 2011****Net Revenues**

Our total net revenues increased by RMB48.2 million, or 15.9%, to RMB352.1 million (\$55.9 million) in the fiscal year ended March 31, 2012 from RMB303.9 million in the fiscal year ended March 31, 2011, as a result of increases in net revenues from our testing services and test preparation and training solutions segments.

*Testing services.* Testing services net revenues increased by RMB47.8 million, or 19.7% to RMB290.9 million (\$46.2 million) in the fiscal year ended March 31, 2012 from RMB243.1 million in the fiscal year ended March 31, 2011, primarily due to an increase in the volume and price of exams for the SAC, the addition of the China Customs exam, and a 61.3% increase in revenues from the HR Select and TOEIC business lines. The total number of billable tests delivered increased to 8,026,639 in the fiscal year ended March 31, 2012 from 6,907,158 in the fiscal year ended March 31, 2011. Our net revenues from testing services provided to the SAC grew to RMB110.3 million (\$17.5 million) in the fiscal year ended March 31, 2012 from RMB103.5 million in the fiscal year ended March 31, 2011. Our net revenues from TOEIC and HR Select grew to RMB88.0 million (\$14.0 million) in the fiscal year ended March 31, 2012 from RMB54.5 million in the fiscal year ended March 31, 2011.

*Test preparation and training solutions.* Our revenues from test preparation and training solutions increased by RMB11.6 million, or 75.0%, to RMB27.0 million (\$4.3 million) in the fiscal year ended March 31, 2012 from RMB15.4 million in the fiscal year ended March 31, 2011, primarily as a result of higher revenues in the online training courses for the SAC.

*Other revenues.* Other revenues decreased by RMB11.2 million, or 24.6%, to RMB34.2 million (\$5.4 million) in the fiscal year ended March 31, 2012 from RMB45.4 million in the fiscal year ended March 31, 2011, primarily due to a 51.0% decrease to RMB12.6million (US\$2.0 million) for test-based education services as we continue to make a gradual exit from this business.

***Gross Profit***

Our gross profit rose by RMB38.6 million to RMB193.3 million (\$30.7 million) in the fiscal year ended March 31, 2012 from RMB154.7 million in the fiscal year ended March 31, 2011. Our gross margin increased to 54.9% in the fiscal year ended March



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31, 2012 from 50.9% in the fiscal year ended March 31, 2011. The increase in our gross margin was primarily due to the significant growth in revenues from online test preparation and training services and the unit price increase for SAC exams.

***Operating Expenses***

Our operating expenses decreased by RMB5.0million, or 3.7%, to RMB128.8million (\$20.4 million) in the fiscal year ended March 31, 2012 from RMB133.8 million in the fiscal year ended March 31, 2011, primarily due to decreased spending in research and development and sales and marketing.

*General and administrative expenses.* Our general and administrative expenses increased by RMB7.3 million, or 13.3%, to RMB61.7 million (\$9.8 million) in the fiscal year ended March 31, 2012 from RMB54.4 million in the fiscal year ended March 31, 2011 primarily due to an increase of RMB7.9 million in share-based compensation.

*Sales and marketing expenses.* Our sales and marketing expenses decreased by RMB8.0 million, or 14.8%, to RMB46.3 million (\$7.4 million) in the fiscal year ended March 31, 2012 from RMB54.4 million in the fiscal year ended March 31, 2011. Sales and marketing expenses as a percentage of our total net revenues decreased to 13.2% in the fiscal year ended March 31, 2012 from 17.9% in the fiscal year ended March 31, 2011. This decrease was primarily related to a RMB6.6 million decrease in marketing expenditures and a RMB1.5 million decrease in salaries and compensation. However, we expect that our sales and marketing expenses will increase in the near term as we believe it is a worthwhile investment of our current profits for the future.

*Research and development expenses.* Our research and development expenses decreased to RMB18.4 million (\$2.9 million) in the fiscal year ended March 31, 2012 from RMB22.8 million in the fiscal year ended March 31, 2011.

*Provision for doubtful accounts.* Bad debt expenses increased slightly by RMB0.1 million, or 5.2%, to RMB2.4 million (\$0.4 million) in the fiscal year ended March 31, 2012 from RMB2.2 million in the fiscal year ended March 31, 2011.

***Interest Income***

Our interest income increased to RMB2.1 million (\$0.3 million) in the fiscal year ended March 31, 2012 from RMB1.0 million in the fiscal year ended March 31, 2011. Our interest income was higher in the fiscal year ended March 31, 2012 because of higher interest rates.

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

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We recorded a net foreign currency exchange gain of RMB3.6 million (\$0.6 million) in the fiscal year ended March 31, 2012, compared with a net gain of RMB1.1 million in the fiscal year ended March 31, 2011, primarily due to the increase of the effects of appreciation of Renminbi against the U.S. dollar in relation to the remeasurement of our RMB denominated bank deposits held by ATA Inc., whose functional currency is the U.S. dollar.

### *Income Tax Expense*

Our income tax expense increased to RMB14.3 million (\$2.3 million) in the fiscal year ended March 31, 2012 from RMB3.3 million in the fiscal year ended March 31, 2011 due to higher operating income generated by ATA Testing and ATA Online.

### *Net Income (Loss)*

As a result of the above factors, our net income increased to RMB55.8 million (\$8.9 million) in the fiscal year ended March 31, 2012 from a net income of RMB19.8 million in the fiscal year ended March 31, 2011.

Our basic earnings per common share and diluted earnings per common share increased to RMB1.22 (\$0.19) and RMB1.19 (\$0.19) in the fiscal year ended March 31, 2012 from RMB0.44 and RMB0.44 in the fiscal year ended March 31, 2011.

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**Fiscal Year Ended March 31, 2011 Compared to Fiscal Year Ended March 31, 2010**

***Net Revenues***

Our total net revenues increased by RMB58.9 million, or 24.0%, to RMB303.9 million in the fiscal year ended March 31, 2011 from RMB245.0 million in the fiscal year ended March 31, 2010, primarily as a result of increases in net revenues from our testing services.

*Testing services.* Testing services net revenues increased by RMB55.9 million, or 29.9% to RMB243.1 million in the fiscal year ended March 31, 2011 from RMB187.2 million in the fiscal year ended March 31, 2010. The total number of billable tests delivered, which affects our testing services net revenues, increased to 6,907,158 in the fiscal year ended March 31, 2011 from 5,760,147 in the fiscal year ended March 31, 2010. Our net revenues from testing services provided to the SAC grew to RMB103.5 million in the fiscal year ended March 31, 2011 from RMB73.7 million in the fiscal year ended March 31, 2010. The number of tests delivered for the SAC increased to 2.7 million in the fiscal year ended March 31, 2011 from 2.0 million in the fiscal year ended March 31, 2010. Our net revenues from TOEIC and HR Select grew to RMB54.5 million in the fiscal year ended March 31, 2011 from RMB29.8 million in the fiscal year ended March 31, 2010.

*Test preparation and training solutions.* Our revenues from test preparation and training solutions increased by RMB4.3 million, or 38.4%, to RMB15.4 million in the fiscal year ended March 31, 2011 from RMB11.1 million in the fiscal year ended March 31, 2010, primarily as a result of higher volume in online courses for the SAC.

*Other revenues.* Other revenues decreased to RMB45.4 million in the fiscal year ended March 31, 2011 from RMB46.7 million in the fiscal year ended March 31, 2010, primarily due to a 19.1% decrease to RMB25.7 million for test-based education services as we continue to make a gradual exit from this business.

***Gross Profit***

Our gross profit rose by RMB39.2 million to RMB154.7 million in the fiscal year ended March 31, 2011 from RMB115.5 million in the fiscal year ended March 31, 2010. Our gross margin increased to 50.9% in the fiscal year ended March 31, 2011 from 47.1% in the fiscal year ended March 31, 2010. The increase in our gross margin was primarily due to the increase in testing services net revenues, which has a relatively higher margins and RMB5.5 million impairment of the prepaid royalty fee for certain course materials related to the Company's partnership with Microsoft in the fiscal year ended March 31, 2010 which did not recur in the fiscal year ended March 31, 2011.

***Operating Expenses***

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Our operating expenses decreased by RMB11.8 million, or 8.1%, to RMB133.8 million in the fiscal year ended March 31, 2011 from RMB145.6 million in the fiscal year ended March 31, 2010.

*General and administrative expenses.* Our general and administrative expenses decreased by RMB2.4 million, or 4.3%, to RMB54.4 million in the fiscal year ended March 31, 2011 from RMB56.8 million in the fiscal year ended March 31, 2010 primarily due to a decrease in share-based compensation expense of RMB 2.3 million as a result of a transfer of 150,000 common shares from a principal shareholder to Benson Tsang upon his appointment as our CFO in the fiscal year ended March 31, 2010.

*Sales and marketing expenses.* Our sales and marketing expenses increased by RMB15.4 million, or 39.6%, to RMB54.4 million in the fiscal year ended March 31, 2011 from RMB39.0 million in the fiscal year ended March 31, 2010. Sales and marketing expenses as a percentage of our total net revenues increased to 17.9% in the fiscal year ended March 31, 2011 from 15.9% in the fiscal year ended March 31, 2010. This increase was primarily related to a RMB10.0 million increase in marketing expenditures and RMB5.4 million increase in salaries and compensation as a result of our continued efforts to grow our HR Select and TOEIC testing services. We expect that our sales and marketing expenses will continue to increase in the near term as we continue to expand our marketing efforts, particularly in relation to our new service offerings.

*Research and development expenses.* Our research and development expenses increased slightly to RMB22.8 million in the fiscal year ended March 31, 2011 from RMB22.7 million in the fiscal year ended March 31, 2010.

*Provision for doubtful accounts.* Bad debt expenses decreased by RMB24.8 million, or 91.7%, to RMB2.2 million in the fiscal year ended March 31, 2011 from RMB27.1 million in the fiscal year ended March 31, 2010, most of which related to the full provision of accounts receivable from sales of our NTET Tutorial Platform software of RMB23.7 million in the fiscal year ended March 31, 2010.

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***Interest Income***

Our interest income was RMB1.0 million in the fiscal year ended March 31, 2011 and RMB0.7 million in the fiscal year ended March 31, 2010. Our interest income was slightly higher in the fiscal year ended March 31, 2011 because of a higher average cash balance during the fiscal year ended March 31, 2011.

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

We recorded a net foreign currency exchange gain of RMB1.1 million in the fiscal year ended March 31, 2011, compared with a net loss of RMB0.3 million in the fiscal year ended March 31, 2010, primarily due to the increase of the effects of appreciation of Renminbi against the U.S. dollar in relation to the remeasurement of our RMB denominated bank deposits held by ATA Inc., whose functional currency is the U.S. dollar.

***Income Tax Expense***

We had income tax expense of RMB3.3 million in the fiscal year ended March 31, 2011, compared to RMB5.7 million in the fiscal year ended March 31, 2010. Our income tax expense was primarily attributable to the net operating income generated by ATA Testing. We had income tax expense in the fiscal year ended March 31, 2010 despite having a loss before income tax of RMB29.6 million mainly due to the impact from non-tax-deductible expenses.

***Net Income (Loss)***

As a result of the above factors, we had net income of RMB19.8 million in the fiscal year ended March 31, 2011 compared to net loss of RMB35.3 million in the fiscal year ended March 31, 2010.

Our basic earnings per common share and diluted earnings per common share were RMB0.44 in the fiscal year ended March 31, 2011, compared to basic loss per common share and diluted loss per common share of RMB0.79 in the fiscal year ended March 31, 2010.

**B. Liquidity and Capital Resources**

We have financed our working capital and capital expenditure requirements primarily through cash provided by operating activities and the proceeds from our 2008 initial public offering.

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As of March 31, 2012, we had RMB257.2 million (\$40.8 million) in cash. Our cash was 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 cash provided by operating activities.

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, 2010, 2011 and 2012:

	2010 RMB	For the fiscal year Ended March 31,		2012 RMB	US\$
		2011 RMB	(In thousands)		
Net cash provided by (used in) operating activities	(27,965)	62,098		59,353	9,425
Net cash used in investing activities	(61,663)	(3,875)		(5,347)	(849)
Net cash used in financing activities	(6,670)			(61,967)	(9,840)
Effect of foreign exchange rate changes on cash	(331)	(4,039)		(2,929)	(465)
Net increase (decrease) in cash	(96,629)	54,184		(10,890)	(1,729)
Cash at beginning of year	310,503	213,874		268,058	42,566
Cash at end of year	213,874	268,058		257,168	40,837

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*Operating Activities*

Net cash provided by operating activities was RMB59.4 million (\$9.4 million) in the fiscal year ended March 31, 2012, which is mainly attributable to the cash collection from revenues of RMB 322.6 million, offset by cash paid for test monitoring costs and royalty fees of RMB 102.7 million, cash paid for payroll and other operating expenses of RMB 143.5 million, and cash paid for income taxes of RMB 17.0 million.

Net cash provided by operating activities was RMB62.1 million in the fiscal year ended March 31, 2011 compared to net cash used in operating activities of RMB28.0 million in the fiscal year ended March 31, 2010. The improvement in our cash flow from operating activities in the fiscal year ended March 31, 2011 was primarily attributable to RMB142.6 million increase in cash collection from our revenues, primarily due to the increase of testing service revenue and improvement of cash collection, partially offset by an increase of RMB47.3 million in cash expenditures on test monitoring costs, payroll and marketing costs.

*Investing Activities*

Net cash used in investing activities in the fiscal year ended March 31, 2012 of RMB 5.3 million (\$0.8 million) was primarily attributable to capital expenditures for the purchase of computers and electronic equipment.

Net cash used in investing activities in the fiscal year ended March 31, 2011 of RMB3.9 million was primarily attributable to capital expenditures for the purchase of computers and electronic equipment.

*Financing Activities*

On June 1, 2011, the Company announced that its Board of Directors has declared a special cash dividend of \$0.215 per common share, or US\$0.43 per ADS. The total amount of cash distributed in the dividend was \$9.8 million (RMB63.6 million), which was paid from the cash held by ATA Inc. As of March 31, 2011, ATA Inc. had \$17.8 million cash. The dividend was paid to all shareholders of record as of the close of business on June 30, 2011. For a discussion of the limitations on the ability of our operating subsidiaries to pay dividends to us, see Item 8.A, Financial Information Dividend Policy.

We believe that our current cash and expected future cash flows from operating activities, particularly from testing services and test preparation and training solutions, is 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. 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, test-based educational services and test preparation and training solutions may cause material fluctuations in our cash generated from operations. See Net Revenues for a description of these significant factors. Changes in working capital, including any significant shortening or lengthening of our accounts receivable cycle or client prepayment cycles, may also cause fluctuations in our cash generated from

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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.

We generally deposit our excess cash in interest-bearing bank accounts located at banks in China and Hong Kong.

### 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.

	2010 RMB	For the fiscal year Ended March 31, 2011 RMB		2012	US\$
		(In thousands)			
Total capital expenditures	59,357	3,875	5,368		852

Historically, our capital expenditures have been made primarily for the purchase of office space, software, computer equipment and servers. Our capital expenditures in the fiscal year ended March 31, 2010 were higher because of our payment of RMB52.6 million in July 2009 for the purchase of our office in Beijing.



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**Foreign Currency Exchange**

ATA Inc. and ATA BVI's functional currency is the U.S. dollar. As of March 31, 2012, we had RMB257.2 million (US\$40.8 million) in cash, including RMB45.9 million (US\$7.3 million) RMB-denominated bank deposits in Hong Kong held by ATA Inc. The functional currency of our PRC subsidiaries and variable interest entity 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 our reported operating results. Under the current foreign exchange system in China, our operations in China may not be able to hedge effectively against currency risk, including any possible future Renminbi devaluation. See Item 3.D. Key Information Risk Factors Risks Relating to the People's Republic of China Fluctuations in exchange rates could result in foreign currency exchange losses.

**Recent Accounting Pronouncements**

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. Under this ASU, an entity will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The ASU eliminates the option in U.S. GAAP to present other comprehensive income in the statement of changes in equity. An entity should apply the ASU retrospectively. For a public entity, the ASU is effective for fiscal years beginning after December 15, 2011, and interim and annual periods thereafter. Early adoption is permitted. In December 2011, the FASB decided to defer the effective date of those changes in ASU 2011-05 that relate only to the presentation of reclassification adjustments in the statement of income by issuing ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05. The Company plans to implement the provisions of ASU 2011-05 by presenting a single continuous statement of comprehensive income in fiscal year 2012.

**C. Research and Development**

Research and development is 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, system design, and test design and conversion. Our research and development team consisted 114 people as of March 31, 2012. We will continue to look selectively for experienced software engineers and other technology talent 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 Dynamic Simulation technology, our ETX platform and our HR Select interface. Our total expenses for research and development were RMB22.7 million, RMB22.8 million and RMB18.4 (\$2.9 million) in the fiscal years ended March 31, 2010, 2011 and 2012, respectively.

**D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from April 1, 2009 to March 31, 2012 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.

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

The following table sets forth our contractual obligations as of fiscal year ended March 31, 2012:

	<b>Total</b>	<b>Within 1 Year</b>	<b>Payment Due 1-3 Years (In thousands of RMB)</b>	<b>3-5 Years</b>	<b>More than 5 Years</b>
Operating Lease Obligations	10,243	6,081	4,162		

Our operating lease obligations have comprised of our office lease obligations for our offices in China. These office leases expire at different times over the period from the date of this annual report through February 2015, 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.

**Indebtedness**

We currently do not have any outstanding debt, debt securities, contingent liabilities, mortgages, or liens.

**G. Safe Harbor**

This release 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**

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The following table sets forth certain information relating to our directors and executive officers as of the date of this annual report. The business address of each of our directors and executive officers is 8th Floor, Tower E, 6 Gongyuan West Street, Jian Guo Men Nei, Beijing 100005, China.

Name	Age	Position
Kevin Xiaofeng Ma	48	Chairman of the Board of Directors, Chief Executive Officer
Walter Lin Wang	50	Director, President
Benson Tsang	47	Chief Financial Officer, Financial and Principal Accounting Officer
Andrew Yan	54	Director
Hope Ni	40	Director
Alec Tsui	63	Director
Jianmin Ding	46	Vice President
Alex Tong	49	Vice President of Business Development
Shuqiu Zhao	40	Vice President
Amy Tung	40	Vice President, Finance

*Kevin Xiaofeng Ma* is co-founder, chairman of the board and chief executive officer of our company. 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 MDI 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.

*Walter Lin Wang* is a co-founder, director and president of our company. Prior to co-founding our company, Mr. Wang practiced independent IT consulting. Mr. Wang also worked as an engineer at the PRC Ministry of Railways. Mr. Wang holds a bachelor's degree in computer science from Southwest Jiaotong University and a master's degree in computer science from University of Central Florida.

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*Benson Tsang* became our chief financial officer and financial and principal accounting officer in March 2010. Mr. Tsang has more than 21 years of experience in accounting, financial management, and the capital markets. He has held senior financial and management positions in multinational corporations and international accounting firms, and has financial and accounting experience with companies listed on the New York Stock Exchange, The Stock Exchange of Hong Kong, and the Singapore Exchange. Mr. Tsang served as Chief Financial Officer of WuXi Pharmatech (Cayman) Inc. (NYSE: WX) from July 2006 to February 2009. Prior to that, Mr. Tsang held senior financial and management positions in private and public companies, including PCCW Ltd. and Global Tech Holdings Ltd. He served with PricewaterhouseCoopers and Deloitte Touche Tohmatsu from 1988 to 1996, and between March 2009 and March 2010, Mr. Tsang provided consulting services through his own firm, the Benita Consulting Company. Mr. Tsang is also an independent director of Shangpharma Corporation, a NYSE-listed company. Mr. Tsang is a member of the Canadian Institute of Chartered Accountants and the Hong Kong Institute of Certified Public Accountants. He received a Bachelor of Commerce degree and an MBA degree from McMaster University in Canada.

*Andrew Yan* is a director of our company and is an independent director pursuant to Nasdaq Stock Market Rules. He is the 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 from 1994 to 2001. From 1993 to 1994, he was the director responsible for strategic planning and business development for the Asia Pacific region at Sprint International Corporation. From 1991 to 1993, he worked as a research fellow at the Hudson Institute. From 1989 to 1990, he was an economist in the World Bank. From 1982 to 1984, he was the chief engineer at the Jianghuai Airplane Corp. Mr. Yan was voted by the China Venture Capital Association as The Venture Investor of the Year in both 2004 and 2007. He was also selected as one of the Fifty Finest Private Equity Investors in the World by the Private Equity International in 2007 and No. 1 Venture Capitalist of the Year by Forbes (China) in 2008 and 2009. He was selected as the Venture Capital Professional of the Year by Asia Venture Capital Journal in 2009. He is currently an independent non-executive director of China Petroleum & Chemical Corporation, China Resources Land Limited and Fosun International Limited and non-executive director of Digital China Holdings Limited, MOBI Development Co., Ltd., NVC Lighting Holding Limited, eSun Holdings Limited and Huiyuan Juice Group Limited. He is also an independent director of Giant Interactive Group Inc and a director of Acorn International Inc., and Eternal Asia Supply Chain Co., Ltd. All of the abovementioned 11 companies are listed on the Hong Kong Stock Exchange, NYSE, NASDAQ, London, Shanghai or Shenzhen Stock Exchange. He also holds directorships on several SAIF portfolio companies. Mr. Yan received a master of arts degree from Princeton University as well as a bachelor's degree in engineering from the Nanjing Aeronautic Institute in the PRC.

*Hope Ni* is an independent director of ATA, Inc. Ms. Ni is currently the chairman of Inspire Capital (previously known as Rising Year Group Limited). Besides serving on our board, she currently also serves on the boards of KongZhong Corporation, JA Solar Holdings Co, and Digital China Holdings Ltd.. From 2004 to 2007, Ms. Ni was the chief financial officer and director of COGO Group Inc. (previously known as Comtech Group Inc.). During the term which Ms. Ni served as chief financial officer, COGO Group increased its market capitalization approximately seven times. In 2008, Ms. Ni served as the vice chairman of COGO 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. Mr. Tsui is currently an independent non-executive director of a number of listed companies in Hong Kong and Shanghai, including, China Chengtong Development Group Ltd., COSCO International Holdings, China Power International Development Limited, China BlueChemical Limited, Pacific Online Ltd, China Oilfield Services Limited and Summit Ascent Holdings Limited. He was also an independent non-executive director of Melco PBL Entertainment (Macau) Ltd. which is listed on the Nasdaq Global Market. 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 July 2001 to June 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 bachelor's degree and a master of engineering degree in industrial engineering. He completed a program for senior managers in government at the John F. Kennedy School of Government of Harvard University.

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*Jianmin Ding* is our vice president in charge of marketing and business development. Mr. Ding has been with ATA since 2001. Prior to joining us, Mr. Ding was the chairman and CEO of Shanghai Linping Property Ltd. Mr. Ding graduated from Nanjing University with a bachelor's degree in economics.

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*Alex Tong* is our vice president in charge of business development and investor relations. Prior to joining us in September 2005, Mr. Tong worked as a general manager for the 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 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.

*Shuqiu Zhao* is our vice president in charge of marketing and business development of our company. Mr. Zhao also oversees our test delivery services and has been with ATA since 2000. Prior to joining us, Mr. Zhao worked as the general manager of the computer education center of the Shanghai Pudong New Area. Mr. Zhao graduated from Harbin Institute of Technology with a bachelor's degree in technology.

*Amy Tung* is our vice president of finance. Prior to joining us in August 2006, she worked as controller at Bayer Healthcare Limited from 2005 to 2006, as a senior financial analyst at BEA Systems (Hong Kong) Limited from 2004 to 2005 and as a finance manager at Bureau Veritas Consumer Products Services (Hong Kong) Limited from 2002 to 2004. Ms. Tung graduated from the Chinese University of Hong Kong with a master's degree in business administration and Columbia University with a master's degree in financial engineering. Ms. Tung is also a member of the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators.

*Patrick Tien*, who was our vice president of channel and sales, retired in April 2012 and will continue to work as a consultant to the Company.

**B. Compensation**

For the fiscal year ended March 31, 2012, we and our subsidiaries paid aggregate cash compensation of approximately RMB8.6 million (\$1.4 million) to our directors and executive officers as a group, and granted to directors and selected executive officers 970,000 restricted shares. 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. We adopted our 2008 Employee Share Incentive Plan, or the 2008 Plan, in January 2008. 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 2008 Plan by our directors, the maximum aggregate number of common shares that may be issued pursuant to all awards under the 2008 Plan is 336,307 shares, plus, unless the board of directors determines a lesser amount, an annual increase on January 1 of each calendar year beginning in 2009 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 March 31, 2012, 1,681,535 shares were authorized for issuance under the 2008 Plan.

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As of June 6, 2012, we have granted 2,453,104 share options and 195,000 restricted shares that are outstanding under the 2005 Plan, and 335,238 share options and 761,750 restricted shares under the 2008 Plan, respectively, to selected directors, officers, employees and individual consultants and advisors, and 2,650,842 share options and 492,116 restricted shares are vested, as of the date of this report. The contractual term of these options is ten years.

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.

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 ninety days following the grantee's last day of employment or service with us. In circumstances where there is a death or total disability of the grantee, generally all unvested options immediately terminate and become unexercisable while vested options terminate and become unexercisable twelve months after the last date of employment or service with us.



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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 will terminate in 2015 and the 2008 Plan will terminate in 2018.

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:

Share options

Name	Number of Common Shares to be Issued Upon Exercise of Options	Exercise Price per Common Share	Date of Grant	Vesting Start Date	Date of Expiration
Andrew Yan	330,400	\$ 2.263	April 12, 2005	May 1, 2005	April 11, 2015
Hope Ni	50,000	\$ 4.75	January 28, 2008	January 28, 2008	January 27, 2018
Alec Tsui	50,000	\$ 4.75	January 28, 2008	January 28, 2008	January 27, 2018
Benson Tsang	300,000	\$ 2.115	March 29, 2010	March 29, 2010	March 28, 2020
Jianmin Ding	303,800	\$ 2.263	April 12, 2005	May 1, 2005	April 11, 2015
Patrick Tien	220,000	\$ 3.60	December 16, 2005	January 1, 2006	December 15, 2015
Alex Tong	100,000	\$ 3.60	December 16, 2005	January 1, 2006	December 15, 2015
Shuqiu Zhao	23,000	\$ 2.263	April 12, 2005	May 1, 2005	April 11, 2015
	8,000	\$ 3.60	October 1, 2007	July 1, 2007	September 30, 2017
Amy Tung	50,000	\$ 3.60	December 27, 2006	October 31, 2006	December 26, 2016

Restricted shares

Name	Restricted Shares	Date of Grant	Vesting Start Date
Kevin Xiaofeng Ma	200,000	May 30, 2011	June 1, 2011
Walter Lin Wang	200,000	May 30, 2011	June 1, 2011
Andrew Yan	100,000	May 30, 2011	June 1, 2011
Jianmin Ding	160,000	May 30, 2011	June 1, 2011
Shuqiu Zhao	100,000	May 30, 2011	June 1, 2011
Shuqiu Zhao	30,000	February 12, 2009	February 12, 2009
Amy Tung	30,000	February 16, 2012	February 17, 2012
Benson Tsang	60,000	February 16, 2012	February 17, 2012
Hope Ni	60,000	February 16, 2012	February 17, 2012
Alec Tsui	60,000	February 16, 2012	February 17, 2012

**C. Board Practices****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;

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- 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 five directors divided into class A, class B and class C directors. As of the date of this annual report, the class A directors are Kevin Xiaofeng Ma and Walter Lin Wang, the class B director is Andrew Yan, and the class C directors are Hope Ni and Alec Tsui. Each class of directors will stand for election every year at our annual general meeting of shareholders on a rotating basis. Our class A directors were re-elected at our 2011 annual general meeting, and our class B director will stand for re-election at our 2012 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),

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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;

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- reviewing and discussing with management and the independent auditor major issues regarding accounting principles and financial statement presentations;
  
- 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 plan 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.

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***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.

**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 web site, <http://www.ata.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 537, 488 and 541 employees as of March 31, 2010, 2011 and 2012, respectively. As of March 31, 2012, we had 150 employees in sales and marketing, 114 in research and development, 201 in client service and support and 76 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 Employee Share Incentive Plan, or the 2008 Plan. 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 Share Incentives Share Option Plan. 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



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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 June 6, 2012 by:

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

	<b>Common Shares Beneficially Owned</b>	
	<b>Number (1)</b>	<b>Number (2)</b>
<b>Directors and Executive Officers:</b>		
Kevin Xiaofeng Ma (3)	6,144,988	13.4%
Walter Lin Wang (4)	2,676,176	5.8%
Patrick Tien	670,000	1.5%
Jianmin Ding	463,800	1.0%
Andrew Yan	*	*
Benson Tsang	*	*
Shuqiu Zhao	*	*
Hope Ni	*	*
Alec Tsui	*	*
Alex Tong	*	*
Amy Tung	*	*
<b>Directors and Executive Officers Combined</b>	<b>11,331,364</b>	<b>24.7%</b>
<b>Principal Shareholders:</b>		
SB Asia Investment Fund II L.P. (5)	15,186,860	33.0%
HSBC International Trustee Limited (6)	14,221,754	30.9%
Able Knight Development Limited (3)	5,944,988	12.9%
Lijun Mai (7)	4,845,000	10.5%
Government of Singapore Investment Corporation Pte Ltd (8)	3,030,066	6.6%
Wealth Treasure Management Limited (4)	2,476,176	5.4%

\* 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 June 6, 2012.

(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 June 6, 2012. The total number of our common shares outstanding as of June 6, 2012 is 45,962,376.

(3) Includes 5,944,988 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. Kevin Xiaofeng Ma is the sole director of Able Knight Development Limited. The business address of Able Knight Development Limited is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

(4) Includes 2,476,176 common shares held by Wealth Treasure Management Limited. Wealth Treasure Management 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 Walter Lin Wang as the settlor and one of the

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beneficiaries. Walter Lin Wang is the sole director of Wealth Treasure Management Limited. The business address of Wealth Treasure Management Limited is Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

(5) Based on a Schedule 13D filed jointly by SB Asia Investment Fund II L.P., SAIF II GP L.P., SAIF Partners II L.P. and SAIF II GP Capital Ltd. on March 15, 2010. Includes 12,707,436 common shares and 1,239,712 ADSs, representing 2,479,424 common shares held by SB Asia Investment Fund II L.P., a Cayman Islands limited partnership. SAIF II GP Capital Ltd. is the sole general partner of SAIF Partners II L.P., which is the sole general partner of SAIF II GP L.P., which is in turn the sole general partner of SB Asia Investment Fund II L.P., which is the record owner of the common shares.

(6) Based on a Schedule 13G filed by HSBC International Trustee Limited on February 10, 2012. Includes 8,785,584 common shares and 2,718,085 American Depositary Shares (representing 5,436,170 common shares) beneficially held by HSBC International Trustee Limited solely in its capacity as trustee of various trusts. The registered address of HSBC International Trustee Limited is 21 Collyer Quay, #09-01 HSBC Building, Singapore 049320.

(7) 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. Includes 1,645,000 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 TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands.

(8) Based on a Schedule 13G filed by the Government of Singapore Investment Corporation Pte Ltd on February 6, 2012. According to the Schedule 13G, the Government of Singapore Investment Corporation Pte Ltd shares power to vote and power to dispose of 2,256,886 common shares and the Monetary Authority of Singapore shares the power to vote and the power to dispose of 773,180 common shares.

None of our shareholders have different voting rights from other shareholders. To our knowledge, we are not owned or controlled, directly or indirectly, by another corporation, by any foreign government or by any other natural or legal persons, severally or jointly. None of our shareholders has 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. Compensation Share Incentives for information on options granted to our current directors and executive officers. To our knowledge, as of June 6, 2012, none of our common shares were held by holders of record in the United States. However, 23,362,606 common shares were registered in the name of a nominee of Citibank, N.A., the depository of our ADSs. It is likely that a large number of beneficial owners of our ADSs reside in the United States.

**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**

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

Due to PRC regulatory restrictions on foreign ownership of Internet content businesses in China, we operate the online portion of our test preparation and training solutions business through ATA Online (Beijing) Education Technology Limited, or ATA Online, which is a domestic Chinese company incorporated in the PRC in September 2006 and owned by Kevin Xiaofeng Ma, our co-founder, chairman and chief executive officer and Walter Lin Wang, our co-founder, director and president, both of whom are PRC citizens. ATA BVI and ATA Learning (Beijing) Inc., or ATA Learning, one of our wholly owned subsidiaries, have entered into a series of contractual arrangements with ATA Online, including an exclusive technical support agreement, a strategic consulting

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service agreement and a call option and cooperation agreement. These contractual arrangements also include an equity pledge agreement entered into with each of the shareholders of ATA Online. As a result of these contractual arrangements, under U.S. GAAP, we are considered the primary beneficiary of ATA Online. Accordingly, we consolidate ATA Online's results in our consolidated financial statements. See Item 4.C. Information on the Company Organizational Structure Corporate Structure and Arrangements with Our Affiliated PRC Entity.

The following is a summary of the material provisions of these agreements. For more complete information you should read these agreements in their entirety. Directions on how to obtain copies of these agreements are provided in this annual report under Item 10.H. Additional Information Documents on Display.

*Technical support agreement, dated October 27, 2006.* Under this agreement, ATA Learning provides 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 pays a quarterly service fee to ATA Learning. The service fee is mutually agreed by both parties, and is 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 reimburses ATA Learning for out of pocket costs ATA Learning incurs in connection with providing the services. The term of this agreement is ten years, automatically renewable for successive one year terms unless ATA Learning notifies ATA Online of its intention not to renew 30 days before the relevant term expires. ATA Online may not terminate this agreement during its term.

*Strategic consulting service agreement, dated October 27, 2006.* Under this agreement, ATA Learning provides 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 test preparation services business. The fees for these services must be confirmed by ATA Learning and will be calculated monthly but paid quarterly based on actual time spent providing the services. In addition, ATA Learning has the right to adjust the fees payable by ATA Online in accordance with its performance. The term of this agreement is 20 years, automatically renewable for successive one year terms unless ATA Learning notifies ATA Online of its intention not to renew 30 days before the relevant term expires. If either party fails to comply with this agreement, it shall indemnify all losses incurred by the other party.

Each party may terminate this agreement if the other party fails to perform its obligations under this agreement or the representations, warranties or covenants of the other party are materially inaccurate or misleading.

*Equity pledge agreement, dated October 27, 2006, as amended and restated on February 12, 2007, and as amended on July 7, 2009.* 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 have 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 may bring a suit 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 can also take part in the auction to bid for the pledged assets itself. As we would not obtain the actual shares of ATA Online upon enforcement of the pledges, the purpose of the equity pledges is not to obtain the equity interest of ATA Online in case of breach of the exclusive technical support agreement and the strategic consulting service agreement, but instead to act as collateral for ATA Online's performance under those agreements. Under the equity pledge agreement, the pledgor may not transfer the pledged equity interest without the pledgee's prior written consent.

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Under PRC law, a pledge of equity interest can only be valid after such pledge is registered with the relevant local branch of the State Administration of Industry and Commerce. Only such registration secures our interest in the equity as collateral. The equity pledges under the equity pledge agreement were registered with the relevant local authority, Haidian Branch of Beijing Administration for Industry and Commerce, on April 25, 2012. The equity pledge was registered in an amount of RMB32.0 million, with the amounts secured by Mr. Xiaofeng Ma's and Mr. Lin Wang's equity pledges equaling RMB28.8 million and RMB3.2 million, respectively.

The term of the pledge agreement is the same as the term of the strategic consulting service agreement. The equity pledge agreement will also be binding upon successors of the pledgor and transferees of the pledged equity interest. This agreement may be terminated upon the completion of ATA Online's contractual liabilities under the exclusive technical support agreement and the strategic consulting service agreement as described above. In February 2007, at the direction of the company, Jianguo Wang transferred all of his equity interest in ATA Online to Walter Lin Wang, and the October 2006 agreement was amended and restated to

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take this transfer into account. In July 2009, the agreement was further amended to incorporate the new investments in the registered capital of ATA Online made by the shareholders of ATA Online as subject to the pledges.

*Loans to the Shareholders of ATA Online, dated October 27, 2006, as amended on February 12, 2007 and on July 7, 2009.* ATA BVI entered into loan agreements with each of Kevin Xiaofeng Ma, Walter Lin Wang and Jianguo Wang, the shareholders of ATA Online to extend each of Kevin Xiaofeng Ma, Walter Lin Wang and Jianguo Wang an interest free loan in the amount of RMB0.9 million, RMB50,000 and RMB50,000, 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 is ten years, which may be extended upon the parties' agreement. Kevin Xiaofeng Ma, Walter Lin Wang and Jianguo Wang can only repay the loans by transferring all of their interest in ATA Online to ATA BVI or to a third party designated by ATA BVI. When Kevin Xiaofeng Ma, Walter Lin Wang and Jianguo Wang transfer their interest in ATA Online to ATA BVI or its designee, if the actual transfer price is higher than the principal amount of the loans, the amount exceeding the principal amount of the loans will be deemed as interest accrued on such loans and repaid by Kevin Xiaofeng Ma, Walter Lin Wang and Jianguo Wang to ATA BVI. ATA BVI also has the right to, but has no obligation to, purchase, or designate a third party to purchase, all or part of their interest in ATA Online at a price equal to the amount of the loans. In February 2007, Jianguo Wang repaid the loan by transferring all of his interest in ATA Online to Walter Lin Wang. As a result, ATA BVI terminated the loan agreement with Jianguo Wang and amended the agreement with Walter Lin Wang to increase the principal of the loan to RMB0.1 million. In July 2009, each of the loan agreements with Kevin Xiaofeng Ma and Walter Lin Wang was further amended by an addendum that ATA BVI would extend an additional loan to each of Kevin Xiaofeng Ma and Walter Lin Wang in the amount of RMB8.1 million (\$1.2 million) and RMB0.9 million (\$131,853), respectively, for the sole purpose of increasing the registered capital of ATA Online.

*Call option and cooperation agreement, dated October 27, 2006, as amended and restated on February 12, 2007, and as amended on July 7, 2009.* Through the call option and cooperation agreement entered into between ATA BVI and ATA Online and its shareholders, ATA BVI or any third party designated by ATA BVI has 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 Chinese laws and regulations. The proceeds from the exercise of the call option will 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 are 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 may materially affect ATA Online's assets, liability, operations, equity or other legal rights, or distributing any dividend to its shareholders. This agreement has an indefinite term and can only be terminated with the unanimous consent of all parties, except that ATA BVI may terminate this agreement with 30 days prior notice to the other parties. In February 2007, Jianguo Wang transferred all of his equity interest in ATA Online to Walter Lin Wang, and the October 2006 agreement was amended and restated to take this transfer into account. In July 2009, the agreement was further amended to incorporate the new investments in the registered capital of ATA Online made by the shareholders of ATA Online as subject to the call option.

**Shareholders Agreement**

In connection with the Shareholders Agreement that we entered into with the shareholders of our Cayman Islands holding company in November 2006, our preferred shareholders are entitled to certain registration rights, including demand registration rights, piggyback registration rights, and Form F-3 or Form S-3 registration rights. These registration rights will terminate on March 31, 2013.

**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 annual report.



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**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, 2011, the Company announced that its Board of Directors declared a special cash dividend of \$0.215 per common share, or \$0.43 per ADS. The total amount of cash distributed in the dividend was \$9.8 million, which was paid from the cash held by ATA Inc. As of March 31, 2011, ATA Inc. had \$17.8 million cash. The dividend was paid to all shareholders of record as of the close of business on June 30, 2011. 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.

Holders of our ADSs will be entitled to receive dividends, if any, subject to the terms of the deposit agreement, to the same extent as the holders of our common shares. Cash dividends will be paid to the depository in U.S. dollars, which will distribute them to the holders of ADSs according to the terms of the deposit agreement. Other distributions, if any, will be paid by the depository to the holders of ADSs in any means it deems legal, fair and practical.

Under China's New EIT Law and its Implementation Rules, both of which became effective on January 1, 2008, dividends from our PRC subsidiaries to us may be subject to a 10% withholding tax if such dividends are derived from profits generated after January 1, 2008. If we are deemed to be a PRC resident enterprise, the withholding tax may be exempted, but we will be subject to a 25% tax on our worldwide income, and our non-PRC enterprise investors may be subject to PRC income tax withholding at a rate of 10%. See Item 3. Key Information D. Risk Factors Risks Relating to Regulation of Our Business Under the New 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 ordinary shares, and Item 10. Additional Information E. Taxation People's Republic of China Taxation.

**B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited financial statements included in this report.

**ITEM 9.**

**THE OFFER AND LISTING**

**A. Offering and Listing Details.****Price Range of Our ADSs**

Our ADSs are listed for trading on the Nasdaq Global Market under the symbol **ATAI** . The following table sets forth the monthly high and low trading prices of our ADSs on the Nasdaq Global Market for the periods indicated:

	<b>High</b>	<b>Low</b>
<b>Yearly Highs and Lows:</b>		
Fiscal year ended March 31, 2009	\$ 17.45	\$ 2.75
Fiscal year ended March 31, 2010	\$ 12.20	\$ 2.92
Fiscal year ended March 31, 2011	\$ 8.65	\$ 2.72
Fiscal year ended March 31, 2012	\$ 13.09	\$ 5.49
<b>Quarterly Highs and Lows:</b>		
Quarter ended June 30, 2010	\$ 4.09	\$ 3.00
Quarter ended September 30, 2010	\$ 3.25	\$ 2.72
Quarter ended December 31, 2010	\$ 4.19	\$ 2.88
Quarter ended March 31, 2011	\$ 8.65	\$ 3.65
Quarter ended June 30, 2011	\$ 13.09	\$ 6.80
Quarter ended September 30, 2011	\$ 11.81	\$ 8.00
Quarter ended December 31, 2011	\$ 10.30	\$ 7.31

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	<b>High</b>	<b>Low</b>
Quarter ended March 31, 2012	\$ 7.60	\$ 5.49
Monthly Highs and Lows:		
December 2011	\$ 9.67	\$ 7.31
January 2012	\$ 7.60	\$ 6.03
February 2012	\$ 7.48	\$ 5.52
March 2012	\$ 7.00	\$ 5.49
April 2012	\$ 7.45	\$ 6.27
May 2012	\$ 7.00	\$ 5.35
June 2012 (through June 1, 2012)	\$ 6.13	\$ 5.35

On June 1, 2012, the closing sale price of our ADSs as reported on the Nasdaq Global Market was US\$5.40 per ADS.

**B. Plan of Distribution**

Not applicable.

**C. Markets**

See Item 9.A above.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share capital**

Not applicable.

**B. Memorandum and Articles of Association**

We incorporate by reference into this annual report the description of our third amended and restated memorandum and articles of association contained in Description of Share Capital of our F-1 registration statement (File No. 333-148512) originally filed with the Securities and Exchange Commission on January 8, 2008, as amended.

**C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4, Information on the Company, Item 5, Operating and Financial Review and Prospects, Item 7, Major Shareholders and Related Party Transactions or elsewhere in this annual report on Form 20-F.

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**D. Exchange Controls**

***Regulation of Foreign Exchange***

China's government imposes restrictions on the convertibility of the Renminbi and on the collection and use of foreign currency by Chinese 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 the PRC State Administration of Foreign Exchange, or SAFE.

Under current Chinese regulations, Foreign-Invested Enterprises such as our Chinese subsidiaries are required to apply to SAFE for a Foreign Exchange Registration Certificate for Foreign-Invested Enterprise. With such a foreign exchange registration certificate (which is subject to review and renewal by SAFE on an annual basis), 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.

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. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. However, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Since reaching a high against the U.S. dollar in July 2008, however, the Renminbi has traded within a narrow range against the U.S. dollar. On June 19, 2010, the People's Bank of China announced the removal of the de facto peg. Following this announcement, the Renminbi appreciated from 6.7968 Renminbi per U.S. dollar on June 21, 2010 to 6.3692 Renminbi per U.S. dollar on June 1, 2012.

***Dividend Distributions***

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 Chinese accounting standards and regulations. 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 March 31, 2012, our Chinese subsidiaries allocated RMB10.6 million (\$1.7 million) to the general reserve fund, which is restricted for distribution to the Company. 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.

**E. Taxation**

The following is a general summary of the material Cayman Islands, U.S. federal and People's Republic of China income tax consequences relevant to an investment in our ADSs and common shares. The discussion is not intended to be, nor should it be construed as, legal or tax advice to any particular prospective purchaser or current holders of our ADSs. The discussion is based on laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change or different interpretations, possibly with retroactive effect. The discussion does not address United States state or local tax laws, or tax laws of jurisdictions other than the Cayman Islands and the United States. You should consult your own tax advisors with respect to the consequences of acquisition, ownership and disposition of our ADSs and common shares.

**Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of ADSs or common shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those

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which hold interests in land in the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Pursuant to Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, we have obtained an undertaking from the Governor-in-Cabinet:

- that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciations shall apply to the Company or its operations; and
- that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for us is for a period of twenty years from October 3, 2006.

**People's Republic of China Taxation**

In 2007 China passed a new Enterprise Income Tax Law, or the New EIT Law, and its Implementing Rules, both of which became effective on January 1, 2008. The New EIT Law created a new resident enterprise classification, which, if applied to us, would impose a 10% withholding tax on our non-PRC enterprise shareholders and potentially 20% to our non-PRC individual shareholders on dividends we pay to them if such dividends are derived from profits generated after January 1, 2008 and with respect to gains derived by our non-PRC shareholders from disposition of our shares or ADSs, if such dividends or gains are determined to have been derived from sources within China. See Item 3. Key Information D. Risk Factors Risks Relating to Regulation of Our Business Under the New 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 ordinary shares.

If we are not deemed as a resident enterprise, then dividends payable to our non-PRC shareholders and gains from disposition of our shares of ADSs by our non-PRC shareholders will not be subject to PRC withholding income tax.

**United States Federal Income Taxation**

This discussion describes the material U.S. federal income tax consequences to U.S. Holders (as defined below) of the purchase, ownership and disposition of our ADSs or ordinary shares. This discussion does not address any aspect of U.S. federal gift or estate tax, or the state, local or non-U.S. tax consequences of an investment in our ADSs and ordinary shares. This discussion applies to you only if you beneficially own our ADSs or ordinary shares as capital assets for U.S. federal income tax purposes. This discussion does not apply to U.S. Holders who are members of a class of holders subject to special rules, such as:

- dealers in securities or currencies;
  
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;
  
- banks or certain financial institutions;
  
- insurance companies;
  
- tax-exempt organizations;
  
- partnerships or other entities treated as partnerships or other pass-through entities for U.S. federal income tax purposes or persons holding ADSs or ordinary shares through any such entities;
  
- regulated investments companies or real estate investment trusts;
  
- persons that hold ADSs or ordinary shares as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;



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- persons whose functional currency for tax purposes is not the U.S. dollar;
- persons liable for alternative minimum tax; or
- persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares (including ADSs and ordinary shares) entitled to vote.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, which we refer to in this discussion as the Code, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion relies on our assumptions regarding the value of our ADSs and ordinary shares and the nature of our business over time. Finally, this discussion is based in part upon the representation of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

**Prospective purchasers are urged to consult their own tax advisor concerning the particular U.S. federal income tax consequences to them of the purchase, ownership and disposition of our ADSs and ordinary shares, as well as the consequences to them arising under the laws of any other taxing jurisdiction.**

For purposes of the U.S. federal income tax discussion below, you are a U.S. Holder if you beneficially own ADSs or ordinary shares as capital assets within the meaning of Section 1221 of the Code and are:

- a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation, that was created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (a) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a U.S. person.

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For U.S. federal income tax purposes, income earned through a U.S. or non-U.S. partnership or other flow-through entity is attributed to its owners. Accordingly, if a partnership or other flow-through entity holds ADSs or ordinary shares, the tax treatment of the holder will depend on the status of the partner or other owner and the activities of the partnership or other flow-through entity.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the claiming of foreign tax credits for U.S. holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, as described below, applicable to dividends received by certain non-corporate holders. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate holders could be affected by actions taken by intermediaries in the chain of ownership between the holder of an ADS and our company.

### **Dividends on ADSs or Ordinary Shares**

Subject to the *Passive Foreign Investment Company* discussion below, if we make distributions and you are a U.S. Holder, the gross amount of any distributions with respect to your ADSs or ordinary shares (including the amount of any taxes withheld therefrom) will be includible in your gross income on the day you actually or constructively receive such income as dividend income if the distributions are made from our current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. With respect to non-corporate U.S. holders, certain dividends received in taxable years beginning before January 1, 2011 from a qualified foreign corporation may be subject to a reduced rate of taxation. A non-U.S. corporation is treated as a qualified foreign corporation with respect to dividends from that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that our ADSs, which are listed on the Nasdaq Global Market, but not our ordinary shares, will be readily tradable on an established securities market in the

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United States. You should consult your own tax advisor as to the rate of tax that will apply to you with respect to dividend distributions, if any, that you receive from us.

Subject to the Passive Foreign Investment Company discussion below, to the extent, if any, that the amount of any distribution by us on ADSs or ordinary shares exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of the U.S. Holder's adjusted tax basis in the ADSs or ordinary shares and thereafter as capital gain. However, we do not intend to calculate our earnings and profits according to U.S. federal income tax principles. Accordingly, distributions on our ADSs or ordinary shares, if any, will generally be reported to you as dividend distributions for U.S. tax purposes. Corporations will not be entitled to claim a dividends-received deduction with respect to distributions made by us. Dividends may constitute foreign source passive income for purposes of the U.S. foreign tax credit rules. You should consult your own tax advisors as to your ability, and the various limitations on your ability, to claim foreign tax credits in connection with the receipt of dividends.

**Sales and Other Dispositions of ADSs or Ordinary Shares**

Subject to the Passive Foreign Investment Company discussion below, when you sell or otherwise dispose of ADSs or ordinary shares, you will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in the ADSs or ordinary shares. Any such gain or losses that you recognize will be treated as U.S. source income for foreign tax credit purposes. Your adjusted tax basis will equal the amount you paid for the ADSs or ordinary shares. Any gain or loss you recognize will be long-term capital gain or loss if your holding period in our ADSs or ordinary shares is more than one year at the time of disposition. If you are a non-corporate U.S. Holder, including an individual, any such long-term capital gain will be taxed at preferential rates (generally 15% for capital gain recognized before January 1, 2011 and 20% thereafter). Your ability to deduct capital losses will be subject to various limitations.

**Passive Foreign Investment Company**

We believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended March 31, 2012, 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 ordinary shares, which is likely to fluctuate over time, there can be no assurance that we will not be a PFIC for any taxable year.

We will be classified as a PFIC in any taxable year if either: (a) the average quarterly value of our gross assets that produce passive income or are held for the production of passive income is at least 50% of the average quarterly value of our total gross assets or (b) 75% or more of our gross income for the taxable year is passive income (such as certain dividends, interest or royalties). For purposes of the first test: (a) any cash and cash invested in short-term, interest bearing, debt instruments, or bank deposits that are readily convertible into cash will count as producing passive income or held for the production of passive income, and (b) the total value of our assets is calculated based on our market capitalization.

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We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the stock.

If we were a PFIC for any taxable year during which you held ADSs or ordinary shares, certain adverse U.S. federal income tax rules would apply. You would be subject to additional taxes and interest charges on certain excess distributions we make and on any gain realized on the disposition or deemed disposition of your ADSs or ordinary shares, regardless of whether we continue to be a PFIC in the year in which you receive an excess distribution or dispose of or are deemed to dispose of your ADSs or ordinary shares. Distributions in respect of your ADSs or ordinary shares during a taxable year would constitute excess distributions if, in the aggregate, they exceed 125% of the average amount of distributions with respect to your ADSs or ordinary shares over the three preceding taxable years or, if shorter, the portion of your holding period before such taxable year.

To compute the tax on excess distributions or any gain, (a) the excess distribution or the gain would be allocated ratably to each day in your holding period, (b) the amount allocated to the current year and any tax year prior to the first taxable year in which we were a PFIC would be taxed as ordinary income in the current year, (c) the amount allocated to other taxable years would be taxable at the highest applicable marginal rate in effect for that year, and (d) an interest charge at the rate for underpayment of taxes

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for any period described under (c) above would be imposed with respect to any portion of the excess distribution or gain that is allocated to such period. In addition, if we were a PFIC, no distribution that you receive from us would qualify for taxation at the preferential rate discussed in the Dividends on ADSs or Ordinary Shares section above.

Under certain attribution rules, if we are a PFIC, you will be deemed to own your proportionate share of lower-tier PFICs, and will be subject to U.S. federal income tax on (a) a distribution on the shares of a lower-tier PFIC and (b) a disposition of shares of a lower-tier PFIC, both as if you directly held the shares of such lower-tier PFIC.

If we were a PFIC in any year, as a U.S. Holder, you would be required to make an annual return on IRS Form 8621 regarding your ADSs and ordinary shares. You should consult with your own tax advisor regarding reporting requirements with regard to your ADSs and ordinary shares.

If we were a PFIC in any year, you would generally be able to avoid the excess distribution rules described above by making a timely so-called mark-to-market election with respect to your ADSs provided our ADSs are marketable. Our ADSs will be marketable as long as they remain regularly traded on a national securities exchange, such as the Nasdaq Global Market. If you made this election in a timely fashion, you would recognize as ordinary income or ordinary loss the difference between the fair market value of your ADSs on the first day of any taxable year and their value on the last day of that taxable year. Any ordinary income resulting from this election would be taxed at ordinary income rates and would not be eligible for the reduced rate of tax applicable to qualified dividend income. Any ordinary losses would be limited to the extent of the net amount of previously included income as a result of the mark-to-market election, if any. Your basis in the ADSs would be adjusted to reflect any such income or loss. You should consult your own tax advisor regarding potential advantages and disadvantages to you of making a mark-to-market election with respect to your ADSs. The mark-to-market election will not be available for any lower tier PFIC that is deemed owned pursuant to the attribution rules discussed above. We do not intend to provide you with the information you would need to make or maintain a Qualified Electing Fund election and therefore, you will not be able to make or maintain such an election with respect to your ADSs or ordinary shares.

**U.S. Information Reporting and Backup Withholding Rules**

Dividend payments with respect to the ADSs or ordinary shares and the proceeds received on the sale or other disposition of ADSs or ordinary shares may be subject to information reporting to the IRS and to backup withholding (currently imposed at a rate of 28%). Backup withholding will not apply, however, if you (a) are a corporation or come within certain other exempt categories and, when required, can demonstrate that fact or (b) provide a taxpayer identification number, certify as to no loss of exemption from backup withholding and otherwise comply with the applicable backup withholding rules. To establish your status as an exempt person, you will be required to provide certification on IRS Form W-9. Backup withholding is not an additional tax. The amount of any backup withholding will generally be allowed as a refund or a credit against your U.S. federal income tax liability, provided that you furnish the required information to the IRS.

PROSPECTIVE PURCHASERS OF OUR ADSS AND ORDINARY SHARES SHOULD CONSULT THEIR OWN TAX ADVISOR REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES RESULTING FROM PURCHASING, HOLDING OR DISPOSING OF OUR ADSS AND ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR NON-US JURISDICTION AND INCLUDING ESTATE, GIFT AND INHERITANCE LAWS.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts.**

Not applicable.

**H. Documents on Display**

We previously filed with the Securities and Exchange Commission our registration statement on Form F-1 as amended.

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We have filed this annual report on Form 20-F with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Statements made in this annual report as to the contents of any document referred to are not necessarily complete. With respect to each such document filed as an exhibit to this annual report, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

We are subject to the informational requirements of the Exchange Act and file reports and other information with the Securities and Exchange Commission. Reports and other information which the Company filed with the Securities and Exchange Commission, including this annual report on Form 20-F, may be inspected and copied at the public reference room of the Securities and Exchange Commission at 100 F Street, N.E. Washington D.C. 20549.

You can also obtain copies of this annual report on Form 20-F by mail from the Public Reference Section of the Securities and Exchange Commission, 100 F Street, N.E., Washington D.C. 20549, at prescribed rates. Additionally, copies of this material may be obtained from the Securities and Exchange Commission's Internet site at <http://www.sec.gov>. The Commission's telephone number is 1-800-SEC-0330.

**I. Subsidiaries Information**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Quantitative and Qualitative Disclosures about Market Risk**

***Interest Rate Risk***

Our exposure to interest rate risk primarily relates to interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

***Foreign Currency Risk***

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Because substantially all of our revenues and expenditures are denominated in Renminbi, fluctuations in the exchange rate between the U.S. dollar and Renminbi will affect our balance sheet and earnings per share in U.S. dollars. In addition, appreciation or depreciation in the 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 the 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. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. However, the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals. Following the removal of the U.S. dollar peg, the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Since reaching a high against the U.S. dollar in July 2008, however, the Renminbi has traded within a narrow range against the U.S. dollar. On June 19, 2010, the People's Bank of China announced the removal of the de facto peg. Following this announcement, the Renminbi has appreciated modestly, from 6.7968 Renminbi per U.S. dollar on June 21, 2010 to 6.3692 Renminbi per U.S. dollar on June 1, 2012.

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.



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ATA Inc. and ATA BVI's functional currency is the U.S. dollar, which resulted in our exposure to foreign currency exchange risk. Primarily as a result of the appreciation of the Renminbi against the U.S. dollar, the translation of the net assets of ATA Inc. and ATA BVI to Renminbi during consolidation resulted in translation loss of RMB3.8 million (\$0.6 million) which we recognized as a component of comprehensive loss as of March 31, 2012. If the Renminbi against U.S. dollar as of March 31, 2012 had further appreciated by 10% from 6.2943 to 5.7221 as of March 31, 2012, the translation loss would have increased by RMB6.4 million (\$1.0 million). Further, we recognized a net foreign currency exchange gain of RMB3.6 million (\$0.6 million) as a result of the remeasurement of the foreign currency denominated monetary assets and liabilities. If the Renminbi against U.S. dollar as of March 31, 2012 had further appreciated by 10% from 6.2943 to 5.7221 as of March 31, 2012, the foreign currency exchange gain would have increased by RMB5.5 million (\$0.9 million).

***Inflation***

China has generally not experienced significant inflation in recent years. According to China's National Bureau of Statistics, the change in China's consumer price index was -0.7%, 3.3 % and 5.4% in the years 2009, 2010 and 2011, respectively. In April 2012, the year-over-year change in China's consumer price index was 3.4%. Neither inflation nor deflation has had a material impact on our results of operations to date, and we do not currently expect the recent inflation in China to have a significant effect on our operations.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares**

*Fees Payable by ADS Holders*

Citibank, N.A., the depositary of our ADR program, collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. Such fees are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these transaction fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary service fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date. In the case of cash distributions, the depositary fees are generally deducted from the cash being distributed. In the case of distributions other than cash (e.g., stock dividends, rights, etc.), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or in DRS), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary generally collects its fees through the settlement systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

In the event of refusal to pay the depositary fees the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

An ADS holder is required to pay the following service fees to the depositary:

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Service	Fees
• Issuance of ADSs	US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) issued
• Cancellation of ADSs	US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) issued
• Distribution of cash dividends or other cash distributions	US\$2.00 (or less) per 100 ADSs (or portion of 100 ADSs) issued
• Distribution of ADSs pursuant to stock dividends, free stock distributions or exercise of rights	US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) issued
• Distribution of securities other than ADSs or rights to purchase additional ADSs	US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) issued
• Depositary services	US\$2.00 (or less) per 100 ADSs (or portion of 100 ADSs) issued

An ADS holder will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

- taxes (including applicable interest and penalties) and other governmental charges;
  
- such registration fees as may from time to time be in effect for the registration of shares or other deposited securities on the share register and applicable to transfers of shares or other deposited securities to or from the name of the custodian, the depositary or any nominees upon the making of deposits and withdrawals, respectively;
  
- such cable, telex and facsimile transmission and delivery expenses as are expressly provided in the deposit agreement to be at the expense of the person depositing or withdrawing shares or holders and beneficial owners of ADSs;
  
- the expenses and charges incurred by the depositary in the conversion of foreign currency;
  
- such fees and expenses as are incurred by the depositary in connection with compliance with exchange control regulations and other regulatory requirements applicable to shares, deposited Securities, ADSs and ADRs; and
  
- the fees and expenses incurred by the depositary, the custodian, or any nominee in connection with the servicing or delivery of deposited securities. The fees and charges an ADS holder may be required to pay may vary over time and may be changed by us and by the

depository bank. ADS holders will receive prior notice of such changes.

*Fees and Other Payments Made by the Depository to Us*

As of March 31, 2011, we received from our depository a reimbursement of US\$817,308 for professional expenses incurred in connection with the advancement of our ADR and investor relations programs. We did not receive any direct reimbursement from our depository in the fiscal year ended March 31, 2012.

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**PART II.**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

The rights of securities holders have not been materially modified.

**ITEM 15. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this annual report, an evaluation has been carried out under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective in ensuring that material information required to be disclosed in this annual report is recorded, processed, summarized and reported to them for assessment, and required disclosure is made within the time period specified in the rules and forms of the Securities and Exchange Commission.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

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Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, management assessed the effectiveness of our internal control over financial reporting as of March 31, 2012 using criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that the internal control over financial reporting was effective as of March 31, 2012 based on the criteria established in this Internal Control-Integrated Framework.

KPMG, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of March 31, 2012, as stated in their report which is included below.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

ATA Inc.:

We have audited ATA Inc.'s internal control over financial reporting as of March 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). ATA Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on ATA Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, ATA Inc. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of ATA Inc. and subsidiaries as of March 31, 2012 and 2011, and the related consolidated statements of operations, shareholders equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended March 31, 2012, and our report

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dated June 6, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Hong Kong, China

June 6, 2012



Table of Contents**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

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.

**ITEM 16B. CODE OF ETHICS**

Our board of directors has adopted a code of ethics that is applicable to our senior executive and financial officers. In addition, our board of directors adopted a code of conduct that is applicable to all of our directors, officers and employees. Our code of ethics and our code of conduct are publicly available on our web site, <http://www.ata.net.cn>.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEE AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by KPMG, our principal accountant, for the periods indicated.

	Fiscal Year Ended March 31,		
	2011	2012	2012
	RMB	RMB	US\$
Audit fees (1)	4,376,850	5,221,224	829,095
Audit-related fees (2)	1,275,452	1,553,816	246,735
Tax fees (3)	324,211	274,241	43,548

(1) Audit fees means the aggregate fees billed or payable for professional services rendered by our principal accountant for the audit of our consolidated financial statements.

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(2) **Audit-related fees** means the aggregate fees billed or payable for assurance and related services by our principal accountant that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under **Audit fees**. Services comprising the fees disclosed under the category of **Audit-related fees** in the fiscal years ended March 31, 2011 and 2012 involve principally the agreed-upon procedures in connection with our quarterly financial information.

(3) **Tax fees** means the aggregate fees billed or payable for services rendered by our principal accountant for tax compliance and tax advice.

The audit committee or our board of directors is to pre-approve all auditing services and permitted non-audit services to be performed for us by our independent registered public accounting firm, including the fees and terms thereof (subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the audit committee or our board of directors prior to the completion of the audit).

### **ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

### **ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

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**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

As a foreign private issuer with shares listed on the Nasdaq Global Market we are subject to corporate governance requirements imposed by Nasdaq. Under Nasdaq Stock Market Rule 5615(a)(3), a foreign private issuer such as us may follow its home-country corporate governance practices in lieu of certain of the Nasdaq Stock Market Rules corporate governance requirements. We are committed to a high standard of corporate governance. As such, we strive to comply with most of the Nasdaq corporate governance practices. However, our current corporate governance practices differ from Nasdaq corporate governance requirements for U.S. companies in certain respects, as summarized below:

- Nasdaq Stock Market Rule 5605(c)(2) requires a Nasdaq listed company to have an audit committee composed of at least three independent members. 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.
- Nasdaq Stock Market Rule 5605(e)(1) requires a Nasdaq listed company to have a nominations committee composed solely of independent directors to select or recommend for selection director nominees. 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.
- Nasdaq Stock Market Rule 5635(c) requires a Nasdaq-listed company to obtain shareholder approval for the establishment of or material amendments to equity compensation plans. As a foreign private issuer, however, we may adopt the practices of our home country, the Cayman Island, which do not require shareholder approval for establishment or material amendments to equity compensation plans. Neither the 2005 Plan nor the 2008 Plan require shareholder approval for material amendments to the plan or awards granted under the plan, including without limitation increasing the number of share awards that may be issued under the plan or the repricing of outstanding options.

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**PART III.**

**ITEM 17. FINANCIAL STATEMENTS**

Not Applicable.

**ITEM 18. FINANCIAL STATEMENTS**

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

**ITEM 19. EXHIBITS**

**Index to Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
1.1	Third Amended and Restated Memorandum and Articles of Association of the Registrant.*
2.1	Form of Common Share Certificate.*
2.2	Form of Deposit Agreement between the Registrant and Citibank, N.A., as depository. (1)
2.3	Form of American depository receipt evidencing American depository shares (included in Exhibit 2.2).*
2.4	Shareholders Agreement, dated November 10, 2006, among the Registrant and its shareholders party thereto.*
4.1	2005 Share Incentive Plan of ATA Testing Authority (Holdings) Limited.*
4.2	2008 Employee Share Incentive Plan of the Registrant and form of ISO Option Agreement and NQSO Option Agreement.*
4.3	Form of Indemnification Agreement between the Registrant and its directors.*
4.4	Technical Support Agreement between ATA Online (Beijing) Education Technology Limited and ATA Learning (Beijing) Inc., dated October 27, 2006.*
4.5	Strategic Consulting Service Agreement between ATA Online (Beijing) Education Technology Limited and ATA Learning (Beijing) Inc., dated October 27, 2006.*

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- 4.6 Loan Agreement between ATA Testing Authority (Holdings) Limited and Xiaofeng Ma, dated October 27, 2006, which was amended on February 12, 2007.\*
- 4.6.1 Amendment to Loan Agreement between ATA Testing Authority (Holdings) Limited and Xiaofeng Ma, dated July 7, 2009.\*\*
- 4.7 Loan Agreement between ATA Testing Authority (Holdings) Limited and Lin Wang, dated October 27, 2006, which was amended on February 12, 2007.\*
- 4.7.1 Amendment to Loan Agreement between ATA Testing Authority (Holdings) Limited and Lin Wang, dated July 7, 2009.\*\*
- 4.8 Call Option and Cooperation Agreement among ATA Testing Authority (Holdings) Limited, Xiaofeng Ma, Lin Wang, Jianguo Wang and ATA Online (Beijing) Education Technology Limited, dated October 27, 2006.\*

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4.9	Framework Agreement for Option Right Exercise among ATA Testing Authority (Holdings) Limited, Lin Wang, Jianguo Wang, ATA Online (Beijing) Education Technology Limited and ATA Learning (Beijing) Inc., dated February 12, 2007.*
4.10	Option Exercise Notice between ATA Testing Authority (Holdings) Limited and Jianguo Wang, dated February 12, 2007.*
4.11	Call Option and Cooperation Agreement among ATA Testing Authority (Holdings) Limited, Xiaofeng Ma, Lin Wang and ATA Online (Beijing) Education Technology Limited, dated February 12, 2007.*
4.12	Equity Pledge Agreement among Xiaofeng Ma, Lin Wang and ATA Learning (Beijing) Inc., dated February 12, 2007.*
4.13	Extended Control Agreement among Xiaofeng Ma, Lin Wang, ATA Online (Beijing) Education Technology Limited, ATA Learning (Beijing) Inc., and ATA Testing Authority (Holdings) Limited, amending the Technical Support Agreement (Exhibit 4.5), the Strategic Consulting Service Agreement (Exhibit 4.6), the Call Option and Cooperation Agreement (Exhibit 4.12), and the Equity Pledge Agreement (4.13), dated July 7, 2009. **
4.14	Testing Service Agreement between ATA Testing Authority (Beijing) Limited and Securities Association of China, dated September 27, 2006.***
4.15	Service Agreement for 2012 Securities Practitioner Qualification Exams between ATA Testing Authority (Beijing) Limited and Securities Association of China, date May 28, 2012.
8.1	List of Subsidiaries.
11.1	Code of Conduct.*
12.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.2	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
23.1	Consent of KPMG.
23.2	Consent of Jincheng Tongda & Neal Law Firm
23.3	Opinion of Jincheng Tongda & Neal Law Firm
101.INS*****	XBRL Instance Document
101.SCH*****	XBRL Taxonomy Extension Schema Document
101.CAL*****	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*****	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*****	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*****	XBRL Taxonomy Extension Presentation Linkbase Document

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\* Previously filed with the Registrant's registration statement on Form F-1 (File No. 333-148512), as amended.

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\*\* Previously filed with the Registrant's annual report on Form 20-F, filed with the SEC on September 15, 2009.

\*\*\* Previously filed with the Registrant's annual report on Form 20-F, filed with the SEC on July 7, 2010.

\*\*\*\* Previously filed with the Registrant's annual report on Form 20-F, filed with the SEC on June 15, 2011.

\*\*\*\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Confidential treatment has been requested for portions of this exhibit.

(1) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-148641) filed with the Securities and Exchange Commission with respect to American depositary shares representing our common shares.

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**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

*ATA INC.*

/s/ Benson Tsang

Name:

Benson Tsang

Title:

Chief Financial Officer

Date: June 6, 2012

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ATA Inc.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

ATA Inc.:

We have audited the accompanying consolidated balance sheets of ATA Inc. and subsidiaries as of March 31, 2012 and 2011, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended March 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ATA Inc. and subsidiaries as of March 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2012, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the year ended March 31, 2012 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Renminbi have been translated into dollars on the basis set forth in Note 2(d) of the notes to the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ATA Inc.'s internal control over financial reporting as of March 31, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 6, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG

Hong Kong, China

June 6, 2012

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## ATA INC.

## Consolidated Balance Sheets

	Note	2011 RMB	March 31, 2012 RMB	2012 USD
<b>ASSETS</b>				
<i>Current assets:</i>				
Cash		268,058,194	257,167,696	40,836,474
Accounts receivable, net	(3)	47,051,596	81,844,571	12,996,359
Inventories		344,909	374,382	59,449
Prepaid expenses and other current assets	(4)	10,036,345	15,682,735	2,490,312
<b>Total current assets</b>		<b>325,491,044</b>	<b>355,069,384</b>	<b>56,382,594</b>
Property and equipment, net	(5)	63,040,178	59,890,306	9,510,172
Goodwill		23,422,850	23,422,850	3,719,389
Intangible assets, net	(6)	20,356,104	17,597,266	2,794,326
Other assets		3,136,860	4,740,321	752,729
<b>Total assets</b>		<b>435,447,036</b>	<b>460,720,127</b>	<b>73,159,210</b>
<b>LIABILITIES AND SHAREHOLDERS</b>				
<b>EQUITY</b>				
<i>Current liabilities:</i>				
Accrued expenses and other payables	(7)	48,346,969	63,732,421	10,120,273
Deferred revenues	(8)	19,100,619	27,333,088	4,340,308
<b>Total current liabilities</b>		<b>67,447,588</b>	<b>91,065,509</b>	<b>14,460,581</b>
Deferred revenues	(8)	3,823,601	3,100,116	492,277
Deferred income tax liabilities	(10)	112,847	139,931	22,220
<b>Total liabilities</b>		<b>71,384,036</b>	<b>94,305,556</b>	<b>14,975,078</b>
<i>Shareholders equity:</i>				
Common shares:				
Par value USD 0.01, authorized: 500,000,000 shares	(12)	3,428,840	3,442,803	546,694
Issued: 44,902,416 and 45,962,376 shares as of March 31, 2011 and 2012, respectively				
Outstanding: 44,596,416 and 44,815,626 shares as of March 31, 2011 and 2012, respectively				
Receivable from shareholders	(11)	(1,035,796)		
Additional paid-in capital		491,585,143	440,832,695	70,001,222
Accumulated other comprehensive loss		(22,217,189)	(26,004,399)	(4,129,322)
Accumulated deficit		(107,697,998)	(51,856,528)	(8,234,462)
<b>Total shareholders equity</b>		<b>364,063,000</b>	<b>366,414,571</b>	<b>58,184,132</b>
Commitments and contingencies	(15)			
<b>Total liabilities and shareholders equity</b>		<b>435,447,036</b>	<b>460,720,127</b>	<b>73,159,210</b>

See accompanying notes to consolidated financial statements.



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## ATA INC.

## Consolidated Statements of Operations

	Note	Year Ended March 31,			2012 USD
		2010 RMB	2011 RMB	2012 RMB	
<b>Net revenues</b>	(9)				
Product		2,811,626	478,468	788,062	125,139
Service		242,219,917	303,425,343	351,297,498	55,783,644
<b>Total net revenues</b>		<b>245,031,543</b>	<b>303,903,811</b>	<b>352,085,560</b>	<b>55,908,783</b>
Cost of revenues		129,535,003	149,216,172	158,818,041	25,219,220
<b>Gross profit</b>		<b>115,496,540</b>	<b>154,687,639</b>	<b>193,267,519</b>	<b>30,689,563</b>
<b>Operating expenses:</b>					
Research and development		22,708,310	22,756,340	18,402,166	2,922,138
Sales and marketing		38,951,021	54,382,019	46,345,286	7,359,315
General and administrative		56,839,498	54,421,441	61,683,088	9,794,854
Provision for doubtful accounts		27,052,862	2,235,627	2,350,990	373,321
<b>Total operating expenses</b>		<b>145,551,691</b>	<b>133,795,427</b>	<b>128,781,530</b>	<b>20,449,628</b>
<b>Income (loss) from operations</b>		<b>(30,055,151)</b>	<b>20,892,212</b>	<b>64,485,989</b>	<b>10,239,935</b>
Interest income		731,181	1,035,607	2,061,020	327,276
Foreign currency exchange gains (losses), net		(283,875)	1,138,484	3,633,543	576,982
<b>Earnings (loss) before income taxes</b>		<b>(29,607,845)</b>	<b>23,066,303</b>	<b>70,180,552</b>	<b>11,144,193</b>
Income tax expense	(10)	5,742,146	3,312,287	14,339,082	2,276,949
<b>Net income (loss)</b>		<b>(35,349,991)</b>	<b>19,754,016</b>	<b>55,841,470</b>	<b>8,867,244</b>
Basic earnings (loss) per common share	(16)	(0.79)	0.44	1.22	0.19
Diluted earnings (loss) per common share	(16)	(0.79)	0.44	1.19	0.19

See accompanying notes to consolidated financial statements.

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## ATA INC.

## Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss)

	Common shares Number of shares	Amount RMB	Treasury shares RMB	Receivable from shareholders RMB	Additional paid-in capital RMB	Accumulated other comprehensive loss RMB	Accumulated deficit RMB	Total shareholders equity RMB	Comprehensive income (loss) RMB	Comprehensive income (loss) USD
Balance as of March 31, 2009	45,675,514	3,503,619	(10,126,861)	(5,226,173)	500,350,068	(16,157,846)	(92,102,023)	380,240,784		
Share-based compensation (Note 11)					4,424,538			4,424,538		
Share-based compensation for share options modified (Note 11)					869,859			869,859		
Share-based compensation for shares transferred from a principal shareholder to an officer (Note 11)					2,201,321			2,201,321		
Repurchase of common shares (Note 12)			(11,896,328)					(11,896,328)		
Repayment from shareholders				5,226,173				5,226,173		
Retirement of treasury shares (Note 12)	(1,233,752)	(84,910)	22,023,189		(21,938,279)					
Net loss							(35,349,991)	(35,349,991)	(35,349,991)	
Foreign currency translation adjustment, net of nil tax						(241,488)		(241,488)	(241,488)	
<b>Comprehensive loss</b>									<b>(35,591,479)</b>	
<b>Balance as of March 31, 2010</b>	<b>44,441,762</b>	<b>3,418,709</b>			<b>485,907,507</b>	<b>(16,399,334)</b>	<b>(127,452,014)</b>	<b>345,474,868</b>		
Share-based compensation (Note 11)					4,651,971			4,651,971		
Exercise of common share option and issuance of common shares (Note 11)	154,654	10,131		(1,035,796)	1,025,665					
Net income							19,754,016	19,754,016	19,754,016	
						(5,817,855)		(5,817,855)	(5,817,855)	

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Foreign currency translation adjustment, net of nil tax									
<b>Comprehensive income</b>									<b>13,936,161</b>
<b>Balance as of March 31, 2011</b>	<b>44,596,416</b>	<b>3,428,840</b>	<b>(1,035,796)</b>	<b>491,585,143</b>	<b>(22,217,189)</b>	<b>(107,697,998)</b>	<b>364,063,000</b>		
Share-based compensation (Note 11)				12,264,397				12,264,397	
Exercise of common share option and issuance of common shares	219,210	13,963		617,881				631,844	
Repayment from shareholders (Note 11)			1,035,796					1,035,796	
Special cash dividend(Note 13)				(63,634,726)				(63,634,726)	
Net income						55,841,470	55,841,470	55,841,470	
Foreign currency translation adjustment, net of nil tax					(3,787,210)			(3,787,210)	(3,787,210)
<b>Comprehensive income</b>								<b>52,054,260</b>	<b>8,265,861</b>
<b>Balance as of March 31, 2012</b>	<b>44,815,626</b>	<b>3,442,803</b>		<b>440,832,695</b>	<b>(26,004,399)</b>	<b>(51,856,528)</b>	<b>366,414,571</b>		
<b>Balance as of March 31, 2012-USD</b>		<b>546,694</b>		<b>70,001,222</b>	<b>(4,129,322)</b>	<b>(8,234,462)</b>	<b>58,184,132</b>		

See accompanying notes to consolidated financial statements.



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## ATA INC.

## Consolidated Statements of Cash Flows

	Year Ended March 31,			2012 USD
	2010 RMB	2011 RMB	2012 RMB	
<b>Cash flows from operating activities:</b>				
Net income (loss)	(35,349,991)	19,754,016	55,841,470	8,867,244
<i>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</i>				
Unrealized foreign currency exchange loss (gain)	89,294	(1,778,813)	(857,940)	(136,235)
Provision for doubtful accounts	27,052,862	2,235,627	2,350,990	373,321
Write-off of prepayments	5,478,250			
Write-down of inventories	85,897	2,033,211		
Depreciation and amortization	12,750,481	13,635,560	11,278,264	1,790,911
Loss from disposal of property and equipment		125,893	4,067	646
Share-based compensation	7,495,718	4,651,971	12,264,397	1,947,503
Deferred income tax benefit (expense)	(287,906)	(3,891,524)	1,149,668	182,559
<i>Changes in operating assets and liabilities:</i>				
Accounts receivable	(38,876,128)	33,330,718	(37,143,965)	(5,898,208)
Income tax payable (receivable)	(3,789,803)	2,276,045	(3,831,623)	(608,436)
Inventories	86,143	(262,900)	(29,473)	(4,680)
Prepaid expenses and other current assets	1,200,882	1,149,849	(1,971,939)	(313,130)
Other assets	(326,147)		(1,465,719)	(232,746)
Accrued expenses and other payables	11,778,603	(3,856,480)	14,255,685	2,263,706
Deferred revenues	(15,353,375)	(7,304,694)	7,508,984	1,192,375
<b>Net cash provided by (used in) operating activities</b>	<b>(27,965,220)</b>	<b>62,098,479</b>	<b>59,352,866</b>	<b>9,424,830</b>
<b>Cash flows from investing activities :</b>				
Cash paid for property and equipment	(59,357,111)	(3,875,495)	(5,367,648)	(852,345)
Cash receipt from property and equipment disposal			20,640	3,277
Payment for JDX acquisition	(2,305,553)			
<b>Net cash used in investing activities</b>	<b>(61,662,664)</b>	<b>(3,875,495)</b>	<b>(5,347,008)</b>	<b>(849,068)</b>
<b>Cash flows from financing activities :</b>				
Proceeds from exercise of share options			631,844	100,333
Cash paid for repurchase of common shares	(11,896,328)			
Collection of receivable from shareholders	5,226,173		1,035,796	164,477
Special cash dividend			(63,634,726)	(10,104,760)
<b>Net cash used in financing activities</b>	<b>(6,670,155)</b>		<b>(61,967,086)</b>	<b>(9,839,950)</b>

See accompanying notes to consolidated financial statements.

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**ATA INC.**  
Consolidated Statements of Cash Flows (Continued)

	Year Ended March 31,			2012 USD
	2010 RMB	2011 RMB	2012 RMB	
<b>Effect of foreign exchange rate changes on cash</b>	<b>(330,780)</b>	<b>(4,039,042)</b>	<b>(2,929,270)</b>	<b>(465,149)</b>
Net increase(decrease) in cash	(96,628,819)	54,183,942	(10,890,498)	(1,729,337)
Cash at beginning of year	310,503,071	213,874,252	268,058,194	42,565,811
<b>Cash at end of year</b>	<b>213,874,252</b>	<b>268,058,194</b>	<b>257,167,696</b>	<b>40,836,474</b>
<i>Supplemental disclosures of cash flow information :</i>				
Net cash paid for income tax	9,819,855	4,927,766	17,021,037	2,702,824
<i>Non-cash investing and financing activities:</i>				
Acquisition of property and equipment included in accrued expenses and other payables	574,892	322,477	349,090	55,433
Deposit included in other assets applied to the acquisition of property and equipment	400,000			
Receivable from shareholders for exercise of common share options		1,035,796		

See accompanying notes to consolidated financial statements.

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**ATA INC.**

Notes to the Consolidated Financial Statements

**(1) DESCRIPTION OF BUSINESS, ORGANIZATION AND SIGNIFICANT CONCENTRATIONS AND RISKS**

*Description of Business and Organization*

ATA Inc. (the Company), through its wholly-owned subsidiaries, ATA Testing Authority (Holdings) Limited (ATA BVI), ATA Testing Authority (Beijing) Limited (ATA Testing), Beijing JinDiXin Software Technology Limited (Beijing JDX), ATA Learning (Beijing) Inc. (ATA Learning), and its consolidated variable interest entity (VIE), ATA Online (Beijing) Education Technology Limited (ATA Online) (collectively, referred to as the Group), provides computer-based testing services, test-based educational services, test preparation and training solutions and other related services in the People's Republic of China (the PRC).

*Significant Concentrations and Risks*

The Group is subject to the following significant concentration and risks:

*Country risk*

The Group is subject to special risks associated with the PRC. These include risks associated with, among others, the political, economic, legal and social environment in the PRC, including the relative difficulty of protecting and enforcing intellectual property rights in the PRC. The interpretation and application of current or proposed requirements and regulations may have an adverse effect on the Group's business, financial condition and results of operations. In addition, the ability to negotiate and implement specific business development projects in a timely and favorable manner may be impacted by political considerations unrelated to or beyond the control of the Group. Although the PRC government has been pursuing economic reform policies for almost three decades, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered. Any change in PRC government policies and regulations affecting the education and testing service industry may have a negative impact on the Group's operating results and financial condition.

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

*Revenue concentration*

For the years ended March 31, 2010, 2011 and 2012, RMB157.0 million, RMB209.3 million and RMB240.7 million, representing 64.1%, 68.9% and 68.4% of the Group's net revenues, respectively, were generated from service fees from Chinese government controlled entities including governmental agencies, educational institutions and industry associations controlled by the PRC government. The demand for the Group's products and services by these agencies, institutions and associations are affected by government budgetary cycles, funding availability and government policies. Funding reductions, reallocations or delays could adversely impact demand for the Group's products and services or reduce the fees these customers are willing to pay for the Group's products and services.

Net revenues from customers that individually exceeded 10% of the Group's net revenues are as follows:

	2010		Year Ended March 31, 2011		2012	
	RMB	%	RMB	%	RMB	%
Securities Association of China	82,242,555	33.6%	115,742,065	38.1%	131,404,013	37.3%
China Banking Association	49,453,256	20.2%	51,681,348	17.0%	36,971,719	10.5%

Accounts receivable, net from customers, that individually exceeded 10% of the Group's accounts receivable are as follows:

	2011		March 31, 2012	
	RMB	%	RMB	%
Securities Association of China	27,068,913	57.5%	25,579,897	31.3%
China Customs Education and Training Center			9,863,856	12.1%

*Concentration of cash balances held at financial institutions*

Cash balances include deposits in:

	2011	March 31,	2012
	RMB		RMB

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Financial institutions in the mainland of the PRC		
Denominated in Renminbi ( RMB )	151,227,768	208,631,163
Denominated in United States Dollars ( USD )		719
<b>Total cash balances held at mainland PRC financial institutions</b>	<b>151,227,768</b>	<b>208,631,882</b>
Financial institutions in HKSAR of the PRC		
Denominated in RMB	112,427,149	45,917,908
Denominated in Hong Kong Dollar	13,799	437,435
Denominated in USD	4,377,746	2,177,482
<b>Total cash balances held at HKSAR financial institutions</b>	<b>116,818,694</b>	<b>48,532,825</b>
<b>Total cash balances held at financial institutions</b>	<b>268,046,462</b>	<b>257,164,707</b>

Management believes these financial institutions have high credit ratings. Cash denominated in currencies other than functional currency is subject to foreign currency risk due to the appreciation or depreciation of the RMB under the current exchange rate regime in the PRC and Hong Kong Special Administrative Region ( HKSAR ).

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**ATA INC.**  
Notes to the Consolidated Financial Statements (Continued)

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Principles of consolidation***

The consolidated financial statements include the financial statements of the Company, its subsidiaries and its VIE which the Group is the primary beneficiary. All significant intercompany balances and transactions have been eliminated upon consolidation.

**(b) *Basis of presentation***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ).

**(c) *Use of estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include the fair values of share-based payments, the collectibility of accounts receivable, the realizability of deferred income tax assets, the useful lives and residual values of long-lived assets, the recoverability of the carrying values of long-lived assets and goodwill, realizable value of inventories and with respect to revenue recognition, the expected service period for course programs and the expected licensing period for perpetual license. Actual results could differ from those estimates.

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

**(d) Foreign currency translation and risks**

The accompanying consolidated financial statements have been expressed in RMB, the Company's reporting currency.

The Company and ATA BVI's functional currency is the USD. The functional currency of the Company's PRC subsidiaries and VIE is the RMB.

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the applicable exchange rates at the balance sheet dates. The resulting foreign exchange gains and losses are included in the consolidated statements of operations in the line item Foreign currency exchange gains (losses), net.

Assets and liabilities of the Company and ATA BVI are translated into RMB using the applicable exchange rate at each balance sheet date. Revenues and expenses are translated into RMB at average rates prevailing during the year. The resulting foreign currency translation adjustments are recognized as a separate component of accumulated other comprehensive income (losses) within shareholders' equity.

For the convenience of the readers, the 2012 RMB amounts included in the accompanying consolidated financial statements have been translated into USD at the rate of USD1.00 = RMB6.2975, the noon buying rate in New York cable transfers of RMB per USD as set forth in the H.10 weekly statistical release of Federal Reserve Board, as of March 31, 2012. No representation is made that the RMB amounts could have been, or could be, converted into USD at that rate or at any other rate on March 31, 2012.

**(e) Commitments and contingencies**

In the normal course of business, the Group is subject to contingencies, such as legal proceedings and claims that cover a wide range of matters. Liabilities for such contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

**(f) Fair value measurements**

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The Group utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Group determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The Group did not have any nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis as of March 31, 2011 and 2012.

The Company's financial instruments consist of cash, accounts receivable, advances to third parties, employees and suppliers, which are included in the prepaid expenses and other current assets, other assets excluding deferred income tax assets, and accrued expenses and other payables, all of which have a carrying amount that approximate fair value because of the short maturity of these instruments.



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**ATA INC.**  
Notes to the Consolidated Financial Statements (Continued)

**(g) Revenue recognition**

The Group's revenues are principally derived from the provision of testing services, test-based educational services and test preparation solutions. The Group recognizes revenues when all of the following have occurred:

- persuasive evidence of an agreement with the customer exists;
- services have been performed and/or delivery of goods has occurred;
- the fees for services performed and/or price of goods sold are fixed or determinable; and
- collectibility of the fees and/or sales proceeds is reasonably assured.

The application of the above criteria for revenue recognition for each type of service or product is as follows:

**i) Testing services**

Fees for testing services are recognized upon the completion of the exam by the test taker since the Group has no significant future involvement after the completion of the examination. Fees received in advance of test delivery are recorded as deferred revenue.

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

ii) Test preparation and training solutions

The Group derives test preparation and training solutions revenues from online test preparation and training service and online training platform development and maintenance service.

a) Online test preparation and training service fees

The Group sells online training to end users directly or through distributors on a consignment basis. The online training entitles end users to access online test preparation and training services during a specified service period, which normally ranges between 90 to 180 days from activation.

Online training revenue is recognized on a straight-line basis over the service period commencing at the point of time the online training is activated. If the online training sold to end users is not activated before the expiration date, related online service revenue is recognized on the expiration date. For online training granted with fixed online hours, the Group compares the revenue recognized to the actual completion status, and makes any revenue adjustments to reflect the actual completion status.

The Group is not contractually obligated to accept, nor has the Group historically accepted, returns from end users.

b) Online training platform development and maintenance service fees

The Group develops online training platform based on customer's requirements and provides maintenance services during the contract period. The online training platform enables end users to participate online training courses.

Fees from online training platform development and maintenance service are recognized, when the platform has been delivered, collectibility is reasonably assured, and on a straight-line basis over the contractual period.

iii) Other revenue

a) Test-based educational services

Fees from educational institutions for degree major course programs are recognized, when collectibility is reasonably assured, on a straight-line basis over the contractual period, which typically starts in the month of September and ends in the month of June or August of the following year, or 10 to 12 months.

Fees from educational institutions for single course programs are recognized on a straight-line basis over the expected service period or the contractual period, whichever is longer. At the end of each reporting period upon the closing of the Group's financial records, the Group compares the revenue recognized at the onset of the contracts to the actual completion status of each contract, on a contract by contract basis, and makes any revenue adjustments to reflect the actual completion status.

Fees are not refundable if the student fails to complete one or more of the courses or the entire degree major course programs or fails any of the exams.

b) Licensing fees from authorized test centers

The Group receives a fixed fee for a perpetual license or an initial fee plus continuing annual fees for renewable annual licenses that provide authorized test centers the right to use the Group's brand name and E-testing platform.

The Group is obligated to provide ongoing technical support and unspecific system upgrades; and to provide training to authorized test centers staff. Initial fees for renewable annual license and fixed fees for perpetual licenses are recognized on a straight-line basis over the expected licensing period of 10 years, which is the period the Group is expected to have continuing involvement with the authorized test centers. Management estimates the expected licensing period based on its historical retention experience, factoring in the expected level of future competition, the risk of technological obsolescence, technological innovation, and the expected changes in the education training environment.

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

c) Test development services

Test development service fees are recognized upon the acceptance of the developed tests by the customer. The period to develop the tests is short, generally within two to six months from commencement of development.

d) Test administration software products

Test administration software products sales are recognized upon delivery and when collectibility is reasonably assured.

iv) Business tax

Revenue is recorded, net of business tax. Business tax is levied on the Group's service-related revenues generated in the PRC at 5%.

**(h) Cost of revenues**

Cost of revenues consists primarily of cost of test monitoring, royalty fees for IT vendors and test sponsor licensing arrangements, cost of inventories, payroll compensation, technical support, and other related costs, which are directly attributable to the rendering of services and delivery of goods.

The test monitoring costs are recognized upon completion of examinations primarily based on actual number of test takers. Royalty fees are recognized as cost of revenues based on actual usage according to contract provisions. During the years ended March 31, 2010, 2011 and 2012, test monitoring costs of RMB 63,919,228, RMB 85,375,463 and RMB 88,232,358 respectively, and royalty fees from IT vendors and test sponsor licensing arrangements of RMB 21,882,555, RMB 17,561,272 and RMB 22,032,654 respectively, were charged to the consolidated statements of operations as cost of revenues.

**(i) Research and development costs**

Research and development costs primarily consist of software developed for internal use and software developed for sale.

i) *Software developed for internal use*

The Group expenses all costs that are incurred in connection with the planning and implementation phases of the development of software. Costs incurred in the development phase are capitalized and amortized over the estimated product life. No costs were capitalized for any of the periods presented.

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

*ii) Software developed for sale*

Costs incurred internally in researching and developing a computer software product are charged to expense as research and development costs prior to technological feasibility being established for the product. Once technological feasibility is established, all computer software costs are capitalized until the product is available for general release to customers. Technological feasibility is established upon completion of all the activities that are necessary to substantiate that the computer software product can be produced in accordance with its design specifications, including functions, features, and technical performance requirements. No costs were capitalized for any of periods presented.

*(j) Income taxes*

Income taxes are accounted for under the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax loss carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates or tax status is recognized in income in the period that includes the enactment date or the date of change in tax status. A valuation allowance is provided to reduce the amount of deferred income tax assets if it is considered more likely than not that some portion or all of the deferred income tax assets will not be realized.

The Group recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Group's accounting policy is to accrue interest and penalties related to unrecognized tax benefits, if and when required, as interest expense and a component of general and administrative expenses, respectively in the consolidated statements of operations.

*(k) Share-based payment*

The Group measures the cost of employee share options or similar equity instruments based on the grant date fair value of the award and recognizes 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 the 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 of the terms and conditions of an award of equity instruments, the 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.

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

**(l) Cash**

Cash consists of cash on hand and cash in banks. None of the Group's cash is restricted from withdrawal.

**(m) Accounts receivable**

Accounts receivable include amounts billed at the invoiced amount.

The allowance for doubtful accounts is the management's best estimate of the amount of probable credit losses resulting from the inability of the Group's customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts, aging data and historical collection pattern. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Group does not have any off-balance-sheet credit exposure related to its customers.

**(n) Inventories**

Inventories include textbooks, exam papers and low value consumables. Inventories are stated at the lower of cost or market value. Cost is determined using the first-in, first-out method. Adjustments are recorded to write down the carrying amount of any obsolete and excess inventory to its estimated net realizable value based on historical and forecasted demand. Provisions to write-down the carrying amount of obsolete inventory to its estimated net realizable value amounted to of RMB85,897, RMB2,033,211 and RMB nil for the years ended March 31, 2010, 2011 and 2012, respectively, and were recorded as cost of revenues in the consolidated statements of operations.

**(o) Property and equipment, net**

Property and equipment is stated at historical cost.

Depreciation and amortization is recognized over the following useful lives on the straight-line method, taking into consideration the assets estimated salvage value:



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Building	30 years
Computer equipment	5 years
Furniture, fixtures and office equipment	5 years
Software	3 to 5 years
Motor vehicles	5 years
Leasehold improvements	the shorter of the lease terms or 5 years

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

**(p) Intangible assets**

Intangible assets acquired are initially recognized and measured at fair value and are amortized on a straight-line basis over their respective estimated useful lives, which range from 3 to 12 years. The Company has no intangible assets with indefinite useful lives.

**(q) Impairment of long-lived assets, excluding goodwill**

Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. No impairment of long-lived assets was recognized for any of the periods presented.

**(r) Goodwill**

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. The goodwill impairment test is a two step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

The Company performs its annual impairment review of goodwill at March 31, and when a triggering event occurs between annual impairment tests. No impairment loss was recorded for any of the periods presented.

**(s) Employee benefit plans**

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As stipulated by the regulations of the PRC, the Company's PRC subsidiaries are required to contribute to various defined contribution plans, organized by municipal and provincial governments on behalf of their employees. The contributions to these plans are based on certain percentages of the employee's standard salary base as determined by the local Social Security Bureau. The Group has no other obligation for the payment of employee benefits associated with these plans beyond the annual contributions described above.

Employee benefit expenses recognized under these plans for the years ended March 31, 2010, 2011 and 2012 is allocated to the following expense items:

	Year Ended March 31,		
	2010	2011	2012
	RMB	RMB	RMB
Cost of revenues	3,236,060	3,461,455	3,847,873
Research and development	2,685,212	3,553,612	3,694,142
Sales and marketing	3,282,329	3,649,029	3,551,100
General and administrative	2,065,290	2,109,344	2,206,793
<b>Total employee benefit expenses</b>	<b>11,268,891</b>	<b>12,773,440</b>	<b>13,299,908</b>

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

**(t) Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during the year using the two-class method. Under the two-class method, net income is allocated between common shares and other participating securities based on their participating rights in undistributed earnings. The Company's nonvested shares relating to the share-based awards under the share incentive plan were considered participating securities since the holders of these securities have non-forfeitable rights to cash dividends.

Diluted earnings (loss) per share is calculated by dividing net earnings (loss) adjusted for the effect of dilutive common equivalent shares, if any, by the weighted average number of common and dilutive common equivalent shares outstanding during the year. Common equivalent shares consist of common shares issuable upon the exercise of outstanding share options and warrants (using the treasury stock method). Common equivalent shares in the diluted earnings (loss) per share computation are excluded to the effect that they would be anti-dilutive. In calculating the diluted earnings (loss) per share, the undistributed earnings are not reallocated to the participating securities and the common and dilutive common equivalent shares.

**(u) Segment reporting**

The Group has one operating segment, testing and training services. Substantially all of the Group's operations and customers are located in the PRC. Consequently, no geographic information is presented.

**(v) Variable Interest Entity ( VIE )**

PRC regulations prohibit direct foreign ownership of business entities that engage in internet content provision ( ICP ) services in the PRC. The Company and its subsidiaries are foreign owned business entities under the PRC law and accordingly are prohibited from providing ICP services in the PRC, including having ownership of entities engaged in providing such services. ATA Online provides ICP online test preparation services in the PRC.

The Group has no legal ownership interest in ATA Online. The legal ownership interests of ATA Online are held by Mr. Kevin Xiaofeng Ma, the Company's co-founder, chairman and chief executive officer and Mr. Walter Lin Wang, the Company's co-founder, director and president, both of whom are also the beneficial owners of the Company. Therefore, the legal owners of ATA Online are also ultimate beneficial owners of the Company's wholly owned PRC subsidiaries.

A series of contractual agreements, including loan agreements, a call option and cooperation agreement, an equity pledge agreement, a technical support agreement, and a strategic consulting service agreement (collectively, the "VIE Agreements") were entered among ATA BVI, ATA Learning, ATA Online, Mr. Kevin Xiaofeng Ma and Mr. Walter Lin Wang. As a result of the VIE Agreements and as described below, the financial statements of ATA Online are consolidated in the Company's consolidated financial statements.

ATA Online is determined to be a VIE because although Mr. Kevin Xiaofeng Ma and Mr. Walter Lin Wang are the equity holders of ATA Online, (i) their equity investment of RMB10 million in ATA Online was financed by the Group and (ii) they do not participate in any profit or loss of ATA Online.

In addition, Mr. Kevin Xiaofeng Ma and Mr. Walter Lin Wang are considered de facto agents of the Group because: (i) Mr. Kevin Xiaofeng Ma and Mr. Walter Lin Wang's equity investment in ATA Online was financed by loans from the Group, (ii) Mr. Kevin Xiaofeng Ma and Mr. Walter Lin Wang are the executive officers of the Group, and (iii) Mr. Kevin Xiaofeng Ma and Mr. Walter Lin Wang cannot sell, transfer or encumber their interest in ATA Online without the prior written approval of the Group.

Further, although the Group does not have an equity investment in ATA Online, the Group has other variable interests in ATA Online through, among others, (i) the Group's subordinated loans to Mr. Kevin Xiaofeng Ma and Mr. Walter Lin Wang (used by them to finance their equity investment in ATA Online) and other subordinated loans to ATA Online, (ii) the Group's right, under the loan agreement, to receive all the dividends declared by ATA Online through its equity holders and (iii) the Group's exclusive purchase option to acquire (or to have the Group's designee acquire) 100% of the equity interest or assets in ATA Online for a consideration equal to the loans provided by the Group to Mr. Kevin Xiaofeng Ma and Mr. Walter Lin Wang, to the extent permitted under PRC law. As a result of these variable interests, the Group has the obligation to absorb the expected losses and the right to receive expected residual returns of ATA Online.

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

Neither Mr. Kevin Xiaofeng Ma, Mr. Walter Lin Wang or the Group individually had both (i) the power to direct activities of ATA Online that most significantly impact ATA Online's economic performance and (ii) the obligation to absorb the expected losses and the right to receive expected residual return of ATA Online (collectively referred to as a Controlling Financial Interest). However, because the Group collectively with Mr. Kevin Xiaofeng Ma and Mr. Walter Lin Wang had a Controlling Financial Interest, management performed an evaluation to determine the party that is most closely associated with ATA Online. Management has concluded that the Group is most closely associated with ATA Online and therefore is the primary beneficiary of ATA Online because:

(i) The legal equity holders of ATA Online, Mr. Kevin Xiaofeng Ma and Mr. Walter Lin Wang are the de facto agents of the Group;

(ii) The Group is exposed to the variability associated with the anticipated economic performance of ATA Online because of (a) the Group's obligation to absorb the expected losses (through the loans described above) and the right to receive expected residual return of ATA Online (through the call option agreement), (b) the Group's right to receive all the dividends declared by ATA Online through its equity holders, and (c) the Group's right to receive a service fee under the technical support agreement and strategic consulting service agreement;

(iii) Under the call option and cooperation agreement, ATA Online and its equity holders cannot sell, assign, mortgage or dispose any of ATA Online's assets or operations and cannot enter into any transaction which may materially affect ATA Online's assets, liability, operations, equity or other legal rights without the Group's prior written consent; and

(iv) The design of ATA Online is to allow the Group to provide ICP online test preparation services in the PRC.

Accordingly, the financial statements of ATA Online are consolidated in the Company's consolidated financial statements. All of the equity (net assets) and net incomes or losses of ATA Online are attributed to the Company; therefore, non-controlling interest in ATA Online is not presented in the Company's consolidated financial statements.

The key terms of these VIE Agreements are as follows:

**Loan agreements:** ATA BVI lent to ATA Online's equity holders, Mr. Kevin Xiaofeng Ma, and Mr. Walter Lin Wang, interest free loans in the amount of RMB10 million for the sole purpose of investing in ATA Online as ATA Online's registered capital. The equity holders of ATA Online can only repay the loans by transferring all of their legal ownership interest in ATA Online to ATA BVI or to a third party designated by ATA BVI. The equity holders of ATA Online are required to pay to ATA BVI all dividend received from ATA Online. The initial terms of the loans are ten years, which may be extended upon the agreement of ATA BVI and ATA Online's equity holders. The approval of ATA Online is not required for the renewal of the loan agreements nor can ATA Online terminate the loan agreement during the contract term. ATA BVI lent

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RMB 1 million on October 27, 2006 and RMB 9 million on July 7, 2009. As of March 31, 2012, the remaining terms of the loan agreements are 4.6 years and 7.3 years for the loans of RMB 1 million and RMB 9 million, respectively, assuming no renewal of the agreement.

**Technical support agreement:** ATA Learning has the exclusive right to provide technical support services to ATA Online. ATA Online pays a quarterly service fee to ATA Learning. The service fees are mutually agreed by both parties, and are 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. During the periods presented, no technical support service was requested by ATA Online and therefore, ATA Learning did not charge ATA Online any service fees under the agreement. The term of this agreement is ten years, automatically renewable for successive one year terms unless ATA Learning notifies ATA Online of its intention not to renew 30 days before the relevant term expires. ATA Online may not terminate this agreement during its term or upon its expiration. The agreement was entered into on October 27, 2006 with a remaining term of 4.6 years as of March 31, 2012, assuming no renewal of the agreement.

**Strategic consulting service agreement:** ATA Learning provides ATA Online with strategic consulting and related services to ATA Online. The fees for these services are determined by ATA Learning and calculated monthly but paid quarterly based on actual time spent providing the services. ATA Learning has the right to adjust the fees payable by ATA Online in accordance with its performance. During the periods presented, no strategic consulting service was requested by ATA Online and therefore, ATA Learning did not charge ATA Online any service fees under the agreement. The term of this agreement is twenty years, automatically renewable for successive one year terms unless ATA Learning notifies ATA Online of its intention not to renew 30 days before the relevant term expires. ATA Online can only terminate this agreement if ATA Learning fails to perform its obligation under this agreement. The agreement was entered into on October 27, 2006 with a remaining term of 14.6 years as of March 31, 2012, assuming no renewal of the agreement.

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ATA INC.

Notes to the Consolidated Financial Statements (Continued)

**Call option and cooperation agreement:** Through the call option and cooperation agreement entered into among ATA BVI, ATA Online and its equity holders, ATA BVI or any party designated by ATA BVI, has an exclusive purchase option to acquire the equity interest in ATA Online from its equity holders or acquire ATA Online's assets at any time when permitted by applicable Chinese laws and regulations. The proceeds from the exercise of the call option will be applied to repay the loans under the loan agreements described above. Further, without ATA BVI's prior written consent, ATA Online or its equity holders cannot sell, assign, mortgage or dispose any of ATA Online's assets or operation, cannot enter into any transaction which may materially affect ATA Online's assets, liability, operation, equity or other legal rights, and cannot distribute any dividend to its equity holders. ATA BVI is also obligated to provide financial support to ATA Online's operation to which ATA BVI has no recourse right if ATA Online cannot repay such financing due to its losses. This agreement has an indefinite term and can only be terminated with the unanimous consent of all parties, except that ATA BVI may terminate this agreement with 30 days prior notice to the other parties.

**Equity pledge agreement:** To secure the payment obligations of ATA Online under the technical support agreement and the strategic consulting service agreement described above, ATA Online's equity holders have pledged to ATA Learning their entire equity ownership interests in ATA Online. Under this agreement, equity holders of ATA Online may not transfer the pledged equity interest without ATA Learning's prior written consent. This agreement will also be binding upon successors of the pledgor and transferees of the pledged equity interest. The term of the pledge is the same as the term of the strategic consulting service agreement. ATA Online may terminate this agreement upon the completion of its contractual obligations under the technical support agreement and the strategic consulting service agreement as described above. As of March 31, 2012, the remaining term of this agreement is 14.6 years, assuming no renewal of the strategic consulting service agreement.

**Risks and uncertainties of the VIE Agreements:** The Company relies on the VIE Agreements to operate and control ATA Online. However, these contractual arrangements may not be as effective as direct equity ownership in providing the Company with control over ATA Online. Any failure by ATA Online or its equity holders to perform their obligations under the VIE Agreements would have a material adverse effect on the financial position and financial performance of the Company. All the VIE Agreements are governed by PRC law and provide for the resolution of disputes through arbitration in the PRC. 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 some other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit the Company's ability to enforce these contractual arrangements. In addition, if the legal structure and the VIE Agreements were found to be in violation of any existing or future PRC laws and regulations, the Company may be subject to fines or other legal or administrative sanctions.

In the opinion of management, based on the legal opinion obtained from the Company's 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.

Accordingly, the Company cannot be assured that PRC regulatory authorities will not ultimately take a contrary view to its opinion. If the current ownership structure of the Company and the VIE Agreements are found to be in violation of any existing or future PRC laws and regulations, the PRC government could:

- revoke the Company's business and operating licenses;



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- 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 web site;
- discontinue or restrict the Company's operations in the PRC;
- impose conditions or requirements with which the Company may not be able to comply;
- require the Company to restructure the Company's corporate and contractual structure;
- take other regulatory or enforcement actions that could be harmful to the Company's business.

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## ATA INC.

## Notes to the Consolidated Financial Statements (Continued)

If the imposition of any of these government actions, or any inability to enforce the contractual arrangements upon a breach, causes the Company to lose its ability to direct the activities of ATA Online or receive substantially all the economic benefits and residual returns from ATA Online and the Company is not able to restructure its ownership structure and operations in a satisfactory manner, the Company would no longer be able to consolidate the financial results of ATA Online in the Company's consolidated financial statements. Total assets, total liability, equity, net sales, net income and cash flows of the Company would be significantly less than the reported amount in the consolidated financial statements of the Company. In the opinion of management, the likelihood of loss in respect of the Company's current ownership structure or VIE Agreements is remote based on current facts and circumstances.

The assets and liabilities of ATA Online as of March 31, 2011 and 2012 and the net revenue and net income (loss) for the years ended March 31, 2010, 2011 and 2012 are as follows:

	March 31,	
	2011 RMB	2012 RMB
Cash	16,336,725	26,474,179
Accounts receivable, net	1,319,497	12,839,077
Prepayment and other current assets	637,939	1,260,738
<b>Total current assets</b>	<b>18,294,161</b>	<b>40,573,994</b>
Property and equipment, net	1,009,373	680,857
<b>Total assets</b>	<b>19,303,534</b>	<b>41,254,851</b>
Accrued expenses and other payables	1,107,108	4,785,359
Amounts due to related parties	10,468,931	4,213,631
Deferred revenue	2,108,560	854,095
<b>Total liabilities</b>	<b>13,684,599</b>	<b>9,853,085</b>

	Year ended March 31,		
	2010 RMB	2011 RMB	2012 RMB
Net revenue	11,072,200	21,022,662	49,782,361
Net income (loss)	(8,537,032)	3,590,196	25,782,832

Amounts due to related parties represent the amount due to ATA BVI and ATA Inc.'s other subsidiaries, which are eliminated on consolidation.

All of the assets of ATA Online can be used only to settle obligations of ATA Online. None of the assets of ATA Online has been pledged or collateralized. The creditors of ATA Online do not have recourse to the general credit of ATA BVI or the Company.



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## Notes to the Consolidated Financial Statements (Continued)

**(w) Recently issued accounting standards**

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. Under this ASU, an entity will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The ASU eliminates the option in U.S. GAAP to present other comprehensive income in the statement of changes in equity. An entity should apply the ASU retrospectively. For a public entity, the ASU is effective for fiscal years beginning after December 15, 2011, and interim and annual periods thereafter. Early adoption is permitted. In December 2011, the FASB decided to defer the effective date of those changes in ASU 2011-05 that relate only to the presentation of reclassification adjustments in the statement of income by issuing ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05. The Company plans to implement the provisions of ASU 2011-05 by presenting a single continuous statement of comprehensive income in fiscal year 2012.

**(3) ACCOUNTS RECEIVABLE, NET**

Accounts receivable, net is summarized as follows:

	<b>2011</b>	<b>March 31,</b>	<b>2012</b>
	<b>RMB</b>		<b>RMB</b>
Accounts receivable	74,989,794		111,944,576
Less: Allowance for doubtful accounts	(27,938,198)		(30,100,005)
<b>Accounts receivable, net</b>	<b>47,051,596</b>		<b>81,844,571</b>

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## Notes to the Consolidated Financial Statements (Continued)

Management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable.

The activity in the allowance for doubtful accounts for accounts receivable for the years ended March 31, 2010, 2011 and 2012 is as follows:

	<b>2010</b>	<b>Year Ended March 31,</b>	
	<b>RMB</b>	<b>2011</b>	<b>2012</b>
		<b>RMB</b>	<b>RMB</b>
Beginning allowance for doubtful accounts	3,198,960	29,934,512	27,938,198
Additions charged to bad debt expense	27,052,862	2,235,627	2,350,990
Write-off of accounts receivable	(317,310)	(4,231,941)	(189,183)
<b>Ending allowance for doubtful accounts</b>	<b>29,934,512</b>	<b>27,938,198</b>	<b>30,100,005</b>

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## ATA INC.

## Notes to the Consolidated Financial Statements (Continued)

**(4) PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid expenses and other current assets consist of the following:

	2011 RMB	March 31,	2012 RMB
Prepaid business tax	481,688		287,925
Income tax receivable			4,934,777
Deferred income tax assets (note 10)	5,494,322		4,233,996
Advances to employees	1,417,299		1,090,425
Other current assets	2,643,036		5,135,612
<b>Total prepaid expenses and other current assets</b>	<b>10,036,345</b>		<b>15,682,735</b>

**(5) PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consist of the following:

	2011 RMB	March 31,	2012 RMB
Building	53,049,213		53,049,213
Computer equipment	20,252,736		21,672,897
Furniture, fixtures and office equipment	532,624		516,794
Software	11,976,549		12,261,549
Motor vehicles	1,935,402		1,885,402
Leasehold improvements	8,062,114		9,018,139
	95,808,638		98,403,994
Less: accumulated depreciation and amortization	(32,768,460)		(38,513,688)
<b>Property and equipment, net</b>	<b>63,040,178</b>		<b>59,890,306</b>

Total depreciation expenses for the year ended March 31, 2010, 2011 and 2012 were, RMB 9,962,811, RMB 10,785,073, and RMB 8,519,426, respectively.



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## ATA INC.

## Notes to the Consolidated Financial Statements (Continued)

**(6) INTANGIBLE ASSETS, NET**

The following table summarizes the Company's intangible assets, all of which were acquired during the year ended March 31, 2009, as of March 31, 2011 and 2012.

	March 31, 2012			Weighted Average Amortization Period Years
	Gross carrying amount RMB	Accumulated amortization RMB	Net carrying amount RMB	
ETS TOEIC license	24,126,706	(7,495,275)	16,631,431	10
Testing service technology	800,000	(800,000)		3
Customer relationships	1,300,000	(334,165)	965,835	12
<b>Total intangible assets</b>	<b>26,226,706</b>	<b>(8,629,440)</b>	<b>17,597,266</b>	

	March 31, 2011			Weighted Average Amortization Period Years
	Gross carrying amount RMB	Accumulated amortization RMB	Net carrying amount RMB	
ETS TOEIC license	24,126,706	(5,089,214)	19,037,492	10
Testing service technology	800,000	(555,556)	244,444	3
Customer relationships	1,300,000	(225,832)	1,074,168	12
<b>Total intangible assets</b>	<b>26,226,706</b>	<b>(5,870,602)</b>	<b>20,356,104</b>	

ETS TOEIC license represents the amounts paid to Educational Testing Service (ETS) under a master distributor agreement for the exclusive right to market, distribute, administer and sell the Test of English for International Communication (TOEIC) in mainland PRC for ten years commencing from March 2009.

Amortization expenses for intangible assets were RMB 2,787,670, RMB 2,850,487 and RMB 2,758,838 for the year ended March 31, 2010, 2011 and 2012, respectively. Estimated amortization expense is RMB 2,514,394 for each of the next five years.



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## ATA INC.

## Notes to the Consolidated Financial Statements (Continued)

**(7) ACCRUED EXPENSES AND OTHER PAYABLES**

Accrued expenses and other payables consist of the following:

	March 31,	
	2011 RMB	2012 RMB
Business and other taxes payable	5,294,775	4,701,736
Accrued payroll and welfare	8,518,040	17,688,960
Accrued test monitoring fees	7,420,546	12,379,899
Accrued discounts to customers	2,077,500	2,077,500
Accrued certificates costs	3,992,682	8,126,036
Royalty fees payable	5,998,771	8,651,161
Income taxes payable	70,190	1,173,344
Accrued professional service expenses	3,904,802	669,155
Accrued marketing fees	776,859	416,766
Payable for purchase of property and equipment	322,477	349,090
Other current liabilities	9,970,327	7,498,774
<b>Total accrued expenses and other payables</b>	<b>48,346,969</b>	<b>63,732,421</b>

Other current liabilities as of March 31, 2011 and 2012 mainly include accrued traveling expenses, rental expenses, meeting expense and other operating expenses.

**(8) DEFERRED REVENUES**

Deferred revenues consist of the following:

	March 31,	
	2011 RMB	2012 RMB
Testing services	4,743,451	19,316,486
Test-based education services	10,289,540	5,178,840
Test preparation and training solutions	2,108,561	854,095
Other revenue licensing fees from authorized test centers centers	5,255,089	4,362,115
Other revenue others	527,579	721,668
<b>Total deferred revenues</b>	<b>22,924,220</b>	<b>30,433,204</b>

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Representing:

Current deferred revenues	19,100,619	27,333,088
Non-current deferred revenues	3,823,601	3,100,116

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## ATA INC.

## Notes to the Consolidated Financial Statements (Continued)

**(9) NET REVENUES**

The components of net revenues for the years ended March 31, 2010, 2011 and 2012 are as follows:

	Year Ended March 31,		
	2010 RMB	2011 RMB	2012 RMB
Testing services	187,158,128	243,103,305	290,881,289
Test preparation and training solutions	11,149,124	15,426,587	26,996,054
Other revenue *	46,724,291	45,373,919	34,208,217
<b>Total revenues, net</b>	<b>245,031,543</b>	<b>303,903,811</b>	<b>352,085,560</b>

\* Includes net revenues from test-based educational services of RMB31,786,398, RMB25,727,038 and RMB12,614,294 for the year ended March 31, 2010, 2011 and 2012, respectively.

Product sales are included in test preparation and training solutions revenue and other revenue. Other revenue primarily includes test-based educational services, licensing fees from authorized test centers, test development services, test certificate services, and test administration software product sales.

**(10) INCOME TAXES***Cayman Islands and British Virgin Islands*

Under the current laws of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in these jurisdictions.

*People's Republic of China*

The Company's consolidated PRC entities file separate income tax returns.

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On March 16, 2007, the National People's Congress passed the new Enterprise Income Tax Law ( new EIT Law ) which statutory income tax rate is 25% effective from January 1, 2008. According to the new EIT Law, entities that qualify as high-and-new technology enterprises eligible for key support from the State ( HNTE ) are entitled to a preferential income tax rate of 15%.

The Company's PRC entities are subject to income tax at 25%, unless otherwise specified.

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## ATA INC.

## Notes to the Consolidated Financial Statements (Continued)

In December 2008, ATA Testing received approval from the tax authority that it qualified as an HNTE. The certificate entitled ATA Testing to the preferential income tax rate of 15% effective retroactively from January 1, 2008 to December 31, 2010. As of March 31, 2011, ATA Testing's applicable income tax rate from January 1, 2011 onwards was 25%. In October 2011, ATA Testing received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2011 to December 31, 2013. ATA Testing's applicable income tax rate from January 1, 2014 onwards is 25%.

In December 2009, ATA Learning, ATA Online and Beijing JDX received approvals from the tax authorities that they qualified as HNTEs. The certificates entitled them to the preferential income tax rate of 15% effectively retroactively from January 1, 2009 to December 31, 2011. ATA Learning, ATA Online and Beijing JDX are subject to income tax at 25% from calendar year 2012 onwards unless they can requalify as HNTEs.

The new EIT Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings generated beginning on January 1, 2008. Undistributed earnings generated prior to January 1, 2008 are exempt from withholding tax. As of March 31, 2012, the Company has not provided for income taxes on earnings of RMB 106,942,884 generated by its PRC consolidated entities since January 1, 2008 as the Company plans to reinvest these earnings indefinitely in the PRC. As of March 31, 2012, the unrecognized deferred income tax liability related to these earnings was RMB 10,694,288.

The earnings (loss) before income taxes were generated in the following jurisdictions:

	2010 RMB	Year Ended March 31, 2011 RMB	2012 RMB
Cayman Islands and British Virgin Islands	(20,124,920)	(11,433,911)	(15,598,329)
PRC	(9,482,925)	34,500,214	85,778,881
<b>Earnings (loss) before income taxes</b>	<b>(29,607,845)</b>	<b>23,066,303</b>	<b>70,180,552</b>

Income tax expense (benefit) recognized in the consolidated statements of operations consists of the following:

	2010 RMB	Year Ended March 31, 2011 RMB	2012 RMB
<b>PRC</b>			
Current	6,030,052	7,203,811	13,189,414
Deferred	(287,906)	(3,891,524)	1,149,668
<b>Total income tax expense</b>	<b>5,742,146</b>	<b>3,312,287</b>	<b>14,339,082</b>

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The actual income tax expense reported in the consolidated statements of operations differs from the respective amount computed by applying the PRC statutory income tax rate of 25% for each of the years ended March 31, 2010, 2011 and 2012 to earnings (loss) before income taxes due to the following:

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## ATA INC.

## Notes to the Consolidated Financial Statements (Continued)

	Year Ended March 31,		
	2010 RMB	2011 RMB	2012 RMB
Computed expected income tax expense (benefit)	(7,401,961)	5,766,576	17,545,138
Increase (decrease) in valuation allowance	3,717,333	(1,379,408)	(2,035,788)
Preferential income tax rate	(4,171,783)	(4,486,178)	(8,301,350)
Entities not subject to income tax	2,907,301	1,695,485	833,483
Non-deductible expenses			
Entertainment	675,360	1,308,601	1,344,639
Share-based compensation	1,873,929	1,162,993	3,066,099
Advertising	397,341		
Bad debt loss	6,478,275		47,296
Tax exempt income	(1,790)		
Changes in tax rates	1,227,604		2,032,901
Tax rate differential		(1,503,124)	(53,254)
Prior year tax return true up		450,139	
Other	40,537	297,203	(140,082)
<b>Actual income tax expense</b>	<b>5,742,146</b>	<b>3,312,287</b>	<b>14,339,082</b>

The applicable PRC statutory tax rate is used since the Group's taxable income is generated in the PRC.

The tax effects of the Group's temporary differences that give rise to significant portions of the deferred income tax assets and liabilities are as follows.

	March 31,	
	2011 RMB	2012 RMB
Deferred income tax assets:		
Tax loss carryforwards	3,753,133	479,411
Property and equipment, net	1,745,019	1,859,136
Allowance for doubtful accounts	802,700	912,399
Write-down of inventories	599,145	579,644
Accrued expenses and other payables	4,197,747	4,021,629
<b>Total gross deferred income tax assets</b>	<b>11,097,744</b>	<b>7,852,219</b>
Less: valuation allowance	(3,693,312)	(1,657,524)
<b>Net deferred income tax assets</b>	<b>7,404,432</b>	<b>6,194,695</b>
Deferred income tax liabilities:		
Intangible assets acquired in JDX acquisition:		
Testing service technology	41,111	
Customer relationships	260,452	241,494
<b>Total gross deferred income tax liabilities</b>	<b>301,563</b>	<b>241,494</b>
<b>Net deferred income tax assets</b>	<b>7,102,869</b>	<b>5,953,201</b>





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## ATA INC.

## Notes to the Consolidated Financial Statements (Continued)

	2011 RMB	March 31, 2012 RMB
Current deferred income tax assets, included in prepaid expenses and other current assets	5,494,322	4,233,996
Non-current deferred income tax assets, included in other assets	1,721,394	1,859,136
Non-current deferred income tax liabilities	(112,847)	(139,931)
<b>Net deferred income tax assets</b>	<b>7,102,869</b>	<b>5,953,201</b>

The increase (decrease) in the valuation allowance for the years ended March 31, 2010, 2011 and 2012 were RMB3,717,333, RMB(1,379,408) and RMB(2,035,788), respectively. As of March 31, 2012, the valuation allowance of RMB1,657,524 was mainly related to the deferred income tax assets of entities at cumulative losses. As of March 31, 2012, management believes it is more likely than not that the Group will realize the deferred income tax assets, net of the valuation allowance. The amount of the deferred income tax assets, however, considered realizable as of March 31, 2012 could be reduced in the near term if estimates of future taxable income are reduced.

As of March 31, 2012, the Group has net tax loss carry forwards for PRC income tax purpose of RMB 1,917,644, if unused, will be expired by December 31, 2015.

For the years ended March 31, 2010, 2011 and 2012, the Group had no unrecognized tax benefits, and thus no related interest and penalties were recorded. Also, the Group does 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 limitation is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitation 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 limitation is ten years. There is no statute of limitation in the case of tax evasion. The income tax return of each of the Company's PRC consolidated entities is subject to examination by the relevant tax authorities for the calendar tax years beginning in 2007.

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

**(11) SHARE BASED COMPENSATION**

**Shares transferred from a principal shareholder to an officer**

In March 2010, the Company's CEO, who is also a principal shareholder, agreed to transfer 150,000 common shares of the Company to the newly appointed CFO. The shares were fully vested on the CFO's employment date. Compensation expense of RMB 2,201,321, which was measured based on the fair value of the shares at the CFO's employment date, was recognized in the consolidated statement of operations for the year ended March 31, 2010.

**2005 Share incentive plan**

In April 2005, the Company adopted a share incentive plan (the 2005 Plan), pursuant to which the Company is authorized to issue options to officers, employees, directors and consultants of the Group to purchase up to 2,894,000 of its common shares. In October 2007, the Company's board of directors approved an increase in the number of shares reserved for issuance under the 2005 Plan to 3,310,300 shares. The 2005 Plan expires in ten years. Options awards provide for accelerated vesting if there is a change in control (as defined in the 2005 Plan).

**2008 Share incentive plan**

On January 7, 2008, the Company adopted a share incentive plan (the 2008 Plan), pursuant to which the Company is authorized to issue options and other share-based awards to officers, employees, directors and consultants of the Group to purchase up to 336,307 of its common shares, plus, unless the board of directors determines a lesser amount, an annual increase on January 1 of each calendar year beginning in 2009 equal to the lesser of 1) one percent of the number of shares issued and outstanding on December 31 of the immediately preceding calendar year, and 2) 336,307 shares. The 2008 Plan expires in ten years. Options awards provide for accelerated vesting if there is a change in control (as defined in the 2008 Plan). As of March 31, 2012, 1,681,535 shares were reserved for issuance under the 2008 Plan.

Under both the 2005 Plan and 2008 Plan, share options are generally granted with 25% vesting on the first anniversary of the grant date and the remaining 75% vesting ratably over the following 36 months, unless a shorter or longer duration is established at the time of the option grant. Share options are granted at an exercise price equal to the fair market value of the Company's share at the date of grant and expire 10 years from the grant date.

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Under the 2008 Plan, nonvested shares are granted with a graded vesting as to 25% at the end of each year from the grant date over 4 years.

For the graded vesting share options and nonvested shares, the Company recognizes the compensation cost over the requisite service period for each separately vesting portion of the award as if the award is, in substance, multiple awards.

In February 2010, the Company extended the exercise period of one employee's vested share options. The modification resulted in additional compensation expense of RMB 869,859 being recognized in the consolidated statement of operations for the year ended March 31, 2010.

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**ATA INC.**  
Notes to the Consolidated Financial Statements (Continued)

	Number of shares	Weighted average exercise USD	Weighted remaining contractual Years	Aggregate intrinsic value USD
Outstanding at March 31, 2009	3,235,468	3.13		
Granted	300,000	2.12		
Exercised				
Forfeited	(90,742)	3.52		
Expired	(31,475)	3.60		
Outstanding at March 31, 2010	3,413,251	2.98		
Granted				
Exercised	(43,884)	3.60		
Forfeited	(225)	3.60		
Expired	(106,492)	3.32		
Outstanding at March 31, 2011	3,262,650	2.96		
Granted				
Exercised	(27,864)	3.60		
Forfeited				
Expired	(446,444)	3.60		
<b>Outstanding at March 31, 2012</b>	<b>2,788,342</b>	<b>2.85</b>		
Vested and expected to vest at March 31, 2012	2,788,342	2.85	4.1	2,006,567
Exercisable as of March 31, 2012	2,638,342	2.89	3.9	1,802,507

The aggregate intrinsic value of options outstanding and exercisable at March 31, 2012, was calculated based on the closing price of the Company's common shares on March 31, 2012.

The total intrinsic value of options exercised in the years ended March 31, 2010, 2011 and 2012 are USD nil, USD 10,175 and USD 28,775 respectively.

In March 2011, certain individuals exercised 43,884 share options with an exercise price of USD3.6 per share. The proceeds of USD157,982 (RMB1,035,796) were not received by the Company as of March 31, 2011 and a receivable from shareholders of RMB 1,035,796 was recorded in the shareholders' equity. The Company received the proceeds in May 2011.

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Information relating to options outstanding and exercisable as of March 31, 2012 is as follows:

Options outstanding as of March 31, 2012			Options exercisable as of March 31, 2012		
Number of Shares	Exercise Price per Share USD	Remaining Contractual Life Years	Number of Shares	Exercise Price per Share USD	Remaining Contractual Life Years
1,312,600	2.26	3.1	1,312,600	2.26	3.1
707,000	3.60	3.7	707,000	3.60	3.7
250,000	3.60	4.6	250,000	3.60	4.6
109,000	3.60	5.7	109,000	3.60	5.7
100,000	4.75	5.5	100,000	4.75	5.5
9,742	2.69	6.9	9,742	2.69	6.9
300,000	2.12	8.0	150,000	2.12	8.0
2,788,342	2.85	4.1	2,638,342	2.89	3.9

The weighted-average grant-date fair value of options granted during the years ended March 31, 2010, 2011 and 2012 was USD 1.240, USD nil and USD nil per share, respectively. The Company calculated the fair value of the share options on the date of grant using the Binomial option-pricing valuation model. The assumptions used in the valuation model are summarized as follows:

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## Notes to the Consolidated Financial Statements (Continued)

	2010	Year Ended March 31, 2011	2012
Expected weighted average volatility		67%	
Expected dividends			
Suboptimal exercise factor	2.0x		
Risk-free interest rate (per annum)	3.89%		
Estimated weighted average fair value at grant date of underlying common shares (per share)	USD2.15		

The expected volatility was based on implied volatilities from traded options of comparable publicly traded training and testing services companies operating in the United States and historical volatility of the Company's stock. The suboptimal exercise factor is related to the period of time the options are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the United States treasury yield curve in effect at the time of grant.

Compensation expense for share options is allocated to the following expense items:

	2010 RMB	Year Ended March 31, 2011 RMB	2012 RMB
Cost of revenues	85,478	568	
Research and development	125,032	1,450	
Sales and marketing	100,714	6,897	42,914
General and administrative	1,547,184	1,636,369	547,231
<b>Total share based compensation expenses</b>	<b>1,858,408</b>	<b>1,645,284</b>	<b>590,145</b>

As of March 31, 2012, RMB 403,261 of total unrecognized compensation expense related to nonvested share options is expected to be recognized over a weighted average period of approximately 2 years.

*Nonvested shares*

A summary of the nonvested shares activities for the year ended March 31, 2010, 2011 and 2012 is presented below:

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**ATA INC.**  
Notes to the Consolidated Financial Statements (Continued)

	Number of shares	Weighted average grant date fair value USD
Outstanding at March 31, 2009	269,000	1.995
Granted	237,549	3.714
Vested	(65,750)	1.995
Forfeited	(9,750)	1.995
Outstanding at March 31, 2010	431,049	2.943
Granted	20,000	1.655
Vested	(120,121)	2.865
Forfeited	(24,928)	2.209
Outstanding at March 31, 2011	306,000	2.949
Granted	1,060,000	4.963
Vested	(116,245)	2.076
Forfeited	(103,005)	4.470
<b>Outstanding at March 31, 2012</b>	<b>1,146,750</b>	<b>4.788</b>

The total fair value of shares vested during the years ended March 31, 2010, 2011 and 2012, was USD 114,076, USD 219,615 and USD 527,371 respectively.

Compensation expense recognized for nonvested shares for the years ended March 31, 2010, 2011 and 2012 is allocated to the following expense items:

	2010 RMB	Year Ended March 31, 2011 RMB	2012 RMB
Cost of revenues	226,767	140,900	71,691
Research and development	390,608	194,527	189,462
Sales and marketing	561,363	595,713	344,226
General and administrative	2,257,251	2,075,547	11,068,873
<b>Total share based compensation expenses</b>	<b>3,435,989</b>	<b>3,006,687</b>	<b>11,674,252</b>

As of March 31, 2012, RMB 21,592,099 of total unrecognized compensation expense related to nonvested shares is expected to be recognized over a weighted average period of approximately 3.31 years.

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**ATA INC.**

Notes to the Consolidated Financial Statements (Continued)

**(12) COMMON SHARES**

The Company's board of directors approved a share repurchase program on November 13, 2008 to repurchase up to USD5 million worth of its outstanding ADSs from time to time in open-market transactions. On February 12, 2010, the Company's board of director reviewed and approved the continuation of the share repurchase program through March 31, 2011. For the year ended March 31, 2010, 2011 and 2012, the Company repurchased 681,538, nil and nil common shares at a repurchase price of RMB 11,896,328, RMB nil and RMB nil, respectively. In March 2010, the Company retired 1,233,752 treasury shares that was repurchased during the year ended March 31, 2009 and 2010 for RMB 22,023,189. The excess of the repurchase price over the par value of the retired common shares (RMB 84,910) of RMB 21,938,279, was charged to additional paid-in capital.

**(13) SPECIAL CASH DIVIDEND**

On June 1, 2011, the Company's board of directors declared a special cash dividend of USD0.215 per common share, or USD0.43 per ADS. The total amount of cash distributed in the dividend was USD9.8 million (RMB 63,634,726) was paid from the cash held by ATA Inc. in August 2011.

**(14) STATUTORY RESERVES**

In accordance with the relevant laws and regulations of the PRC, the Company's PRC consolidated entities are required to transfer 10% of their respective after tax profit, as determined in accordance with PRC accounting standards and regulations to a general reserve fund until the balance of the fund reaches 50% of the registered capital of the respective entity. The transfer to this general reserve fund must be made before distribution of dividends can be made. As of March 31, 2011 and 2012, the PRC consolidated entities had appropriated RMB 7,160,263 and RMB 10,598,807, respectively, to the general reserve fund, which is restricted for distribution to the Company.

**(15) COMMITMENTS AND CONTINGENCIES**

*Lease commitments*

The Group entered into non-cancelable operating leases, primarily for office space, for initial terms of three to five years.



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Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease, including any periods of free rent.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of March 31, 2012 are:

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**ATA INC.**  
Notes to the Consolidated Financial Statements (Continued)

	<b>Minimum Lease Amount RMB</b>
Year ended:	
March 31, 2013	6,081,036
March 31, 2014	3,935,597
March 31, 2015	226,511
March 31, 2016	
March 31, 2017	<b>10,243,144</b>

Rental expense for operating leases (except leases with a term of one month or less that are not renewed) for the years ended March 31, 2010, 2011 and 2012 were RMB 5,485,788, RMB 5,446,033 and RMB 5,159,138 respectively.

**(16) EARNINGS (LOSS) PER COMMON SHARE**

Basic and diluted earnings (loss) per common share are calculated as follows:

	<b>2010 RMB</b>	<b>Year Ended March 31, 2011 RMB</b>	<b>2012 RMB</b>
Numerator:			
Net earnings (loss)	(35,349,991)	19,754,016	55,841,470
Less: Dividends paid to participating securities			(1,476,269)
Net earnings attributable to participating securities		(162,360)	
Net earnings (loss) available to common shareholders	(35,349,991)	19,591,656	54,365,201
Denominator:			
Denominator for basic earnings (loss) per share:			
Weighted average common shares outstanding	44,789,512	44,469,182	44,713,418
Plus: Incremental shares issuable upon exercise of share options			951,469
Denominator for diluted earnings (loss) per share	44,789,512	44,469,182	45,664,887
Basic earnings (loss) per common share	(0.79)	0.44	1.22
Diluted earnings (loss) per common share	(0.79)	0.44	1.19

The following table summarizes potential common shares outstanding excluded from the calculation of diluted earnings (loss) per share for the years ended March 31, 2010, 2011 and 2012, because their effect is anti-dilutive:

Year ended March 31,

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	2010	2011	2012
Shares issuable under share options	3,413,251	3,262,650	100,000

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## Notes to the Consolidated Financial Statements (Continued)

**(17) ATA INC. ( Parent Company )**

The following presents condensed financial information of the Parent Company only.

*Condensed Balance Sheets*

	<b>2011</b>	<b>March 31,</b>	<b>2012</b>
	<b>RMB</b>	<b>RMB</b>	<b>USD</b>
Cash	116,818,694	48,532,826	7,706,681
Prepaid expenses and other current assets	1,308,978	840,201	133,418
Investments in subsidiaries	247,228,859	317,670,591	50,443,921
<b>Total assets</b>	<b>365,356,531</b>	<b>367,043,618</b>	<b>58,284,020</b>
Accrued expenses and other current liabilities	1,293,531	629,047	99,888
<b>Total liabilities</b>	<b>1,293,531</b>	<b>629,047</b>	<b>99,888</b>
Common shares	3,428,840	3,442,803	546,694
Receivable from shareholders	(1,035,796)		
Additional paid in capital	491,585,143	440,832,695	70,001,222
Accumulated other comprehensive loss	(22,217,189)	(26,004,399)	(4,129,321)
Accumulated deficit	(107,697,998)	(51,856,528)	(8,234,463)
<b>Total shareholders equity</b>	<b>364,063,000</b>	<b>366,414,571</b>	<b>58,184,132</b>
<b>Total liabilities and shareholders equity</b>	<b>365,356,531</b>	<b>367,043,618</b>	<b>58,284,020</b>

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Notes to the Consolidated Financial Statements (Continued)

*Condensed Statements of Operations*

	2010 RMB	Year Ended March 31,		2012 USD
		2011 RMB	2012 RMB	
Operating expenses	(11,663,959)	(8,754,744)	(7,487,523)	(1,188,968)
Investment income (loss)	(23,643,581)	27,535,955	60,175,402	9,555,443
Interest income	12,696	97,045	377,333	59,918
Foreign currency exchange gains (losses), net	(55,147)	875,760	2,776,258	440,851
<b>Earnings(loss) before income taxes</b>	<b>(35,349,991)</b>	<b>19,754,016</b>	<b>55,841,470</b>	<b>8,867,244</b>
Income tax expense				
<b>Net income (loss)</b>	<b>(35,349,991)</b>	<b>19,754,016</b>	<b>55,841,470</b>	<b>8,867,244</b>

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## ATA INC.

Notes to the Consolidated Financial Statements (Continued)

*Condensed Statements of Cash Flows*

	Year Ended March 31,			
	2010 RMB	2011 RMB	2012 RMB	2012 USD
<b>Net cash used in operating activities</b>	<b>(12,425,281)</b>	<b>(8,122,776)</b>	<b>(4,529,639)</b>	<b>(719,276)</b>
<b>Cash flows from investing activities :</b>				
Payments of investment in subsidiaries	(94,398,750)			
Advances to (collection from) subsidiaries	(68,744)	(5,139)	1,140,127	181,044
Payment for JDJ acquisition	(2,305,553)			
<b>Net cash provided by (used in) investing activities</b>	<b>(96,773,047)</b>	<b>(5,139)</b>	<b>1,140,127</b>	<b>181,044</b>
<b>Cash flows from financing activities :</b>				
Proceeds from exercise of share options			631,844	100,333
Cash paid for repurchase of common shares	(11,896,328)			
Collection of receivable from shareholders	5,226,173		1,035,796	164,477
Special cash dividend			(63,634,726)	(10,104,760)
<b>Net cash used in financing activities</b>	<b>(6,670,155)</b>		<b>(61,967,086)</b>	<b>(9,839,950)</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>(330,780)</b>	<b>(4,039,042)</b>	<b>(2,929,270)</b>	<b>(465,148)</b>
Net decrease in cash	(116,199,263)	(12,166,957)	(68,285,868)	(10,843,330)
Cash at beginning of year	245,184,914	128,985,651	116,818,694	18,550,011
<b>Cash at end of year</b>	<b>128,985,651</b>	<b>116,818,694</b>	<b>48,532,826</b>	<b>7,706,681</b>
<i>Supplemental disclosures of cash flow information :</i>				
<i>Non-cash investing and financing activities:</i>				
Receivable from shareholders for exercise of common share options		1,035,796		