ATA Inc.
Form 20-F
September 15, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

(Mark One)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended March 31, 2009

OR

o **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)
Carl Yeung
Chief Financial Officer
ATA Inc.
8th Floor, Tower E
6 Gongyuan West Street
Jian Guo Men Nei
Beijing 100005, China
Telephone: 8610-6518-1122
Facsimile: 8610-6517-9517
(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

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: 45,675,514 common shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ 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. o Yes þ 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. þ Yes o 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). o Yes o 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 o Accelerated filer þ Non-accelerated filer o

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

U.S. GAAP þ	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

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 o Item 18 o

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). o Yes þ 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 th context requires;
- China, Chinese and PRC refers to the People s Republic of China, excluding, for purposes of this annual repor only, Taiwan and the Special Administrative Regions of Hong Kong and Macau;
- all references to Renminbi or RMB are to the legal currency of China, and all references to U.S. dollars , dollars , $ or US$ are to the legal currency of the United States;
- U.S. GAAP refers to generally accepted accounting principles in the United States; and
- PRC GAAP refers to generally accepted accounting principles in the People s Republic of China.

This annual report on Form 20-F includes our audited consolidated statements of operation data for the years ended March 31, 2007, 2008 and 2009 and audited consolidated balance sheet data as of March 31, 2008 and 2009. 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, a estimate, plan, believe, is /are likely to or the negative form of these words and phrases or other comparable expressions. The forward-looking statements included in this annual report relate to, among others:

- our goals and strategies;
- our future prospects and market acceptance of our technologies, products and services;
- our future business development and results of operations;
- projected revenues, profits, earnings and other estimated financial information;
- our plans to expand and enhance our products and services;
- competition in the computer-based testing, educational services and 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.

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.

This annual report also contains information and statistics relating to China s economy and the industries in which we operate derived from various publications issued by Chinese governmental entities and other third parties which have not been independently verified by us. The information in such third-party sources may not be consistent with other information compiled in or outside China. We have taken such care as we consider reasonable in the reproduction and extraction of information from third-party sources.

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 statements of operations data for the fiscal years ended March 31, 2007, 2008 and 2009 (other than ADS data), and the selected consolidated balance sheets data as of March 31, 2007, 2008 and 2009, are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements and related notes. Our selected consolidated statements of operations data for the year ended December 31, 2004 and March 31, 2006 (other than ADS data) and the selected consolidated balance sheets data as of December 31, 2004 and March 31, 2006, are derived from audited consolidated financial statements not included in this annual report. Our selected consolidated statements of operations data for the three months ended March 31, 2005 (other than ADS data) and the selected consolidated balance sheets data as of March 31, 2005 are derived from unaudited 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 December 31,	For the Three Months Ended March 31,	For the Year Ended March 31,				
	2004	2005	2006	2007	2008	2009	
	RMB	RMB	RMB	RMB	RMB	RMB	US$
Selected Consolidated Statements of Operations Data:							
Net Revenues							
Testing services	17,351	1,977	18,170	24,628	78,198	137,046	20,057
Test-based educational services	18,369	6,684	35,138	42,804	48,594	42,546	6,227

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	For the Year Ended December 31, 2004 RMB	For the Three Months Ended March 31, 2005 RMB	2006 RMB	2007 RMB	2008 RMB	2009 RMB	2009 US$
				For the Year Ended March 31,			
Test preparation and training solutions	407	17	340	10,076	36,908	25,071	3,669
Other (1)	8,394	1,780	15,389	7,373	8,388	12,882	1,885
Total net revenues	44,521	10,458	69,037	84,881	172,088	217,545	31,838
Gross profit	21,388	3,527	35,049	43,779	105,141	124,937	18,285
Total operating expenses	24,967	13,266	36,140	63,375	81,713	98,549	14,423
(Loss) income from operations (2)	(3,579)	(9,739)	(1,091)	(19,596)	23,428	26,388	3,862
Interest expense (3)	(9,690)	(1,143)	(22,713)				
Foreign currency exchange losses, net	(2)	(66)	(1,050)	(909)	(236)	665	97
Net(loss) income	(12,198)	(8,683)	(24,809)	(16,790)	20,170	22,810	3,338
Accretion of Series A redeemable convertible preferred shares to redemption value			(13,889)				
Foreign currency exchange transaction adjustment on Series A redeemable convertible preferred shares			3,269				
Net (loss) income (applicable) available to common shareholders (4)	(12,198)	(8,683)	(35,429)	(16,790)	20,170	22,810	3,338

	For the Year Ended December 31, 2004 RMB	For the Three Months Ended March 31, 2005 RMB	2006 RMB	2007 RMB	2008 RMB	2009 RMB	2009 US$
				For the Year Ended March 31,			
Basic (loss) earnings per common share (4)	(0.61)	(0.50)	(2.16)	(0.82)	0.79	0.50	0.07
Diluted (loss) earnings per common share (4)	(0.61)	(0.50)	(2.16)	(0.82)	0.53	0.49	0.07
	(1.22)	(1.00)	(4.32)	(1.64)	1.58	1.00	0.14

Basic (loss) earnings per ADS (5)							
Diluted (loss) earnings per ADS (5)	(1.22)	(1.00)	(4.32)	(1.64)	1.06	0.98	0.14

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	At December 31,			At March 31,			
	2004	2005	2006	2007	2008	2009	
	RMB	RMB	RMB	RMB	RMB	RMB	US$
Consolidated Balance Sheet Data:							
Cash	11,827	93,030	44,624	45,019	332,197	310,503	45,442
Accounts receivable, net	10,967	4,354	12,984	16,978	63,502	71,077	10,402
Due from related parties	21,381	23,798	4,368	20			
Total current assets	50,189	125,881	67,989	76,656	403,309	399,002	58,394
Total assets	63,986	139,260	88,384	108,165	436,634	471,245	68,967
Note payable, current (6)	17,940	18,666	19,000				
Due to related parties	54,576	46,277	1,644				
Deferred revenues, current	23,288	20,564	22,340	26,341	36,708	40,238	5,889
Total current liabilities	113,575	112,453	53,937	45,620	66,530	85,189	12,467
Note payable, non-current (6)							
Deferred revenues, non-current	10,442	8,585	8,555	7,897	7,026	5,626	823
Total liabilities	124,017	121,038	62,492	53,517	73,556	91,004	13,319
Accumulated deficit	(84,800)	(93,483)	(118,292)	(135,082)	(114,912)	(92,102)	(13,479)
Total shareholders (deficit) equity	(60,031)	(94,444)	25,892	54,648	363,078	380,241	55,649

(1) In March 2002, our subsidiary, ATA Testing Authority (Beijing) Limited, or ATA Testing, entered into an agreement with Jiangsu ATA Software Co., Ltd., or ATA Jiangsu to assign ATA Testing s rights and interests in a number of text delivery service contracts to ATA Jiangsu. ATA Testing collected an RMB6.5 million payment under this agreement in the year ended December 31, 2002. We initially

anticipated that the test delivery service contracts would generate revenues and ATA Testing would provide ancillary services under the agreement for a period of ten years. We therefore deferred the recognition of revenue upon receipt of the payment, and began to recognize the payment into income over a ten year period for the years ended December 31, 2002, 2003 and 2004. However, on December 27, 2005, the board of directors of ATA Jiangsu resolved to commence a voluntary winding up of ATA Jiangsu. As a result, we recognized the remaining deferred revenue of RMB3.9 million into income in December 2005.

(2) Includes non-cash share-based compensation expenses of RMB1.1 million, RMB6.4 million, RMB4.2 million, RMB2.5 million, RMB7.3 million and RMB5.6 million

for the year ended December 31, 2004, the three months ended March 31, 2005, the fiscal years ended March 31, 2006, 2007, 2008 and 2009, respectively. Our non-cash share-based compensation expense for the three months ended March 31, 2005 includes an expense of RMB6.3 million resulting from the issuance of 853,941 of our common shares to Kevin Xiaofeng Ma, our co-founder, chairman and chief executive officer, to reward his past performance.

(3) Includes interest expense and loan discount charged for the year ended December 31, 2004, the three months ended March 31, 2005 and the fiscal year ended March 31, 2006 of RMB2.6 million, RMB0.7 million and RMB22.7 million, respectively, in connection with an RMB19.0 million loan from a third party that was

repaid in full on May 19, 2006. Also includes earnings attributable and payable to an investor of ATA Learning of RMB7.1 million for the year ended December 31, 2004.

(4) Our PRC subsidiaries, ATA Testing, ATA Learning and our consolidated variable interest entity, or VIE, ATA Online enjoyed tax holidays provided by PRC tax authorities. See Item 5. Operating and Financial Review and Prospects A. Operating Results Taxation. If our PRC subsidiaries had not enjoyed these tax holidays, the effects of the tax holidays on earnings (loss) per share for the periods indicated are as follows:

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	For the Year Ended December 31	For the Three Months Ended March, 31	For the Year Ended March 31,				
	2004	2005	2006	2007	2008	2009	
	RMB	RMB	RMB	RMB	RMB	RMB	US$
Effect on net (loss) income (applicable) available to common shareholders	(19)	90	(544)	155	(823)		
Effect on basic (loss) earnings per common share	(0.001)	0.005	(0.033)	0.008	(0.032)		
Effect on diluted (loss) earnings per common share	(0.001)	0.005	(0.033)	0.008	(0.022)		

(5) Each ADS represents two common shares.

(6) Note payable to a third party was repaid in full on May 19, 2006

	For the Year Ended March 31,				
	2005	2006	2007	2008	2009
Key Operating Data:					
Number of tests delivered (1)	2,212,351	2,583,712	3,335,701	12,787,470	5,063,379

(1) Includes 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, 2005, 2006, 2007, 2008 and 2009 was 1,860,412, 2,067,714, 3,335,701, 3,632,285 and 5,063,379, 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 as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at a rate of RMB6.8329 to US$1.00, which was the noon buying rate in effect as of March 31, 2009. The noon buying rate on September 8, 2009 was RMB6.8275 to US$1.00. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The Chinese government restricts or prohibits the conversion of Renminbi into foreign currency and foreign currency into Renminbi for certain types of transactions.

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

	Renminbi per U.S. Dollar Noon Buying Rate			
	Average (1)	High	Low	Period-end
Fiscal year ended March 31, 2005	8.2767	8.2773	8.2764	8.2765
Fiscal year ended March 31, 2006	8.1234	8.2765	8.0167	8.0167
Fiscal year ended March 31, 2007	7.8843	8.0300	7.7232	7.7232
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

	Renminbi per U.S. Dollar Noon Buying Rate			
	Average (1)	High	Low	Period-end
Most recent six months:				
March 2009	6.8360	6.8438	6.8240	6.8329
April 2009	6.8306	6.8361	6.8180	6.8180
May 2009	6.8235	6.8326	6.8176	6.8278
June 2009	6.8334	6.8371	6.8264	6.8302
July 2009	6.8317	6.8342	6.8300	6.8319
August 2009	6.8323	6.8358	6.8299	6.8299
September 2009 (period through September 8)	6.8293	6.8303	6.8275	6.8275

Source: Federal Reserve Bank of New York and U.S. Federal Reserve

(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

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We have been growing rapidly and plan to expand our operations significantly over the next few years. If we fail to address risks or meet new challenges associated with the rapid expansion, we may not meet internal and external expectations of our future performance.

We are experiencing rapid growth in our operations and technology and services development, which has placed a significant strain on our management, administrative, operational and financial infrastructure. This rapid expansion may have caused us to overlook or fail to properly address latent problems. Rapid expansion also may have led to inefficiencies in our administrative systems or business operations that have not yet been discovered or addressed.

Furthermore, we anticipate expanding the scope of our operations significantly in the coming years, including adding new service offerings such as our HR Select employee assessment solution, distribution and administration of the Test of English for International Communication, or TOEIC in China and Cambridge ESOL Young Learners English online tutorials. Our future success will depend in part upon the ability of our senior management to manage this growth effectively. In particular, our management may face the following challenges managing this growth:

- controlling our costs and expenses and maintaining or increasing our margins and profitability;
- retaining existing clients and expanding service offerings to those clients;
- acquiring and retaining new clients, especially for our new service offerings;
- retaining our key relationships with Chinese government controlled entities, obtaining any governmental approvals required for new service offerings and responding to changes in the regulatory and policy environment;
- improving our operating, administrative and financial systems and internal controls and maintaining close cooperation between members of management and heads of individual departments;
- increasing the awareness of our brand name and protecting our reputation;
- keeping up with evolving industry standards, technologies and market developments; or
- integrating any acquired business into our business operations and realizing the potential benefits of our acquisition.

We rely on a handful of relatively senior managers for much of our marketing and business development, which includes, among other things, site visits with prospective clients followed by the signing of non-binding memoranda of understanding or other preliminary arrangements. Since the number of our senior managers is still small, we may not have a sufficient number of marketing and business development professionals with the experience and talent to quickly and effectively follow up with such clients and convert these memoranda of understanding and preliminary arrangements into final agreements and revenue-generating relationships. If we fail to successfully address these and other challenges as we expand our operations, we may not meet internal and external expectations of our future performance, which could result in a decline in the market price of our ADSs.

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 quarter ending December 31 typically having the highest net revenues from testing services and the quarter ending March 31 typically having the lowest net revenues from testing services.

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Under our contracts with some test sponsors, we have the right to receive payment approximately one month after a test is delivered, and our clients typically pay us within three to six months of delivery. We therefore may experience substantial increases in our accounts receivable balance at the end of the quarter ending December 31 of each year. Revenues from our degree major and single course programs may experience seasonal declines during the quarter ending September 30 of each fiscal year, which includes the summer holiday months of July and August, since we do not recognize revenues in July and August for the last year of each degree major course program and for most single course programs. We also expect some seasonality in our accounts receivable related to degree major programs, because we collect from our clients typically around the months of October to November, and a large portion of our clients settle payment with us two to five months after that time. In addition, we have expanded our business into the test preparation and training market. We believe demand for test preparation and training solutions are generally highest close to test and certification requirement deadlines, which are typically during the quarter ending December 31. Therefore we expect revenues from test preparation and training solutions to be the highest in the quarter ending December 31.

In addition, our sales cycles are generally long and unpredictable. A client s decision to purchase our products and services often involves a lengthy evaluation process. Throughout the sales cycle, we often spend considerable time educating and providing information to prospective clients regarding the use and benefits of our products and services. Moreover, budget constraints and the need for multiple approvals within large enterprises, governmental agencies and educational institutions may also delay purchasing decisions. The inability to obtain the required approval for a course taught using one of our course programs or for procurement of our other products or services may not be known until the negotiation process has progressed for many months. As a result, the sales cycle for our computer-based testing services and career-oriented educational services may last a year or longer. Such a lengthy sales cycle, and any future increases in our sales cycle, could lead to higher sales and marketing expenses and adversely affect our cash flow from operations. In addition, the lengthy sales cycle has made, and may continue to make, our financial results prone to fluctuations or decrease our revenues in a particular period.

If our revenues for a particular quarter are lower than we expect, we may be unable to reduce our operating expenses for that quarter by a corresponding amount, which could negatively affect our operating results for that quarter. As a result, you should not rely on our quarter-to-quarter comparisons of our operating results as indicators of likely future performance. Our operating results may be below the expectations of public market analysts and investors in one or more future quarters. If that occurs, the market price of our ADSs could decline and you could lose part or all of your investment. Fluctuations of our quarterly financial results may also lead to increased volatility in the market price of our ADSs.

The Chinese market for computer-based testing services and career-oriented 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 computer-based testing services and career-oriented educational 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

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reluctance of educational institutions to depend on third-party providers of curricula and academic certifications.

A decline in the demand for computer-based testing services and education services by test sponsors or educational institutions would negatively affect demand for our computer-based testing services and technologies, as well as our degree major and course programs, which incorporate computer-based tests. Even if demand for computer-based testing services and education services continues to grow, this demand may not grow as quickly as we anticipate.

If we are not successful in achieving market acceptance for our new service offerings, our revenues may grow more slowly or decline.

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 developing and expanding our HR Select employee assessment solution, distribution and administration of TOEIC exam in China and Cambridge ESOL Young Learners English online tutorials. Each of these new service offerings is targeting a separate market and client base from our current service offerings. As the markets for these offerings are new for us, we cannot assure you that we will succeed in adapting to client needs in these markets or effectively deal with 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 Chinese 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.

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 the Ministry of Education and Cambridge ESOL in relation to our Cambridge ESOL Young Learners English online tutorials.

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.

Any failure by us to obtain new business from our existing clients or maintain our relationships with key Chinese government controlled entities may decrease our market share and revenues.

The success of our business going forward will rely in large part on our ability to continue to obtain business from our existing clients and maintain our relationships with key Chinese government controlled entities including governmental agencies, educational institutions and industry associations controlled by the Chinese government. For the fiscal years ended March 31, 2008 and 2009, 58.3% and 72.3% respectively, of our total net revenues were generated from licensing and service fees from Chinese government-controlled entities. Our contracts for computer-based testing services generally allow for termination without cause on three months to one year s written notice. Furthermore, educational institutions offering our career-oriented educational programs are under no contractual obligation to enroll students in our programs. We must therefore market our technologies and services to new and existing clients not only to expand our operations, but also to maintain our existing client base and revenues.

The willingness of Chinese test sponsors and educational institutions to use our technologies and services is to some extent a result of our longstanding relationships with the Ministry of Human Resources and Social Security and Education, which significantly enhance our name brand and reputation among our client base. At the same time, maintaining a strong relationship with the Ministry of Education is important for marketing our career-oriented educational services, as each program requires approval by the Ministry of Education before it may be introduced into schools in China. If our relationships with these two ministries or their local branches were to deteriorate, it could significantly reduce our revenues and harm our brand and reputation.

Reductions in public funding available to our clients that are governmental agencies and educational institutions funded by the Chinese government 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 services fees from Chinese governmental agencies and educational institutions funded by the Chinese government. Demand and ability to pay for our products and services by these agencies and institutions 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, our revenues from the sale of our NTET Tutorial Platform in the fiscal year ended March 31, 2009 decreased due to lower approved budgets by relevant governmental agencies for procuring this software as the deadline for the national NTET test has been deferred.

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, 2009, the Securities Association of China and the China Banking Association, accounted for 26.2% and 24.8%, respectively, of our net revenues for that period. Our top five clients for the fiscal year ended March 31, 2009 accounted for 66.4% of our net revenues for the fiscal year ended March 31, 2009. 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 significant clients;
- a decision by one or more of our significant 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.

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 client s 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.

We derive a substantial portion of our revenues from course programs using materials licensed from Microsoft China and Adobe, and the loss of the right to use these course materials could materially harm our revenues and results of operations.

A substantial portion of our single course programs and the individual courses that comprise our degree major course programs use course materials licensed from IT vendors including Microsoft China and Adobe. Moreover, our degree major and single course programs are attractive to our educational institution clients and their students largely because they offer students the opportunity to obtain a professional certification, such as a Microsoft Certified Professional or Delphi certification, at the same time that they earn academic credit from their school. We expect our revenues from these sources to continue to account for a substantial portion of our revenues. Our contracts for providing course programs and delivering certification exams in China for Microsoft China and Adobe generally have a term of one or two years and are automatically renewable for an additional one or two years. However, our Microsoft China contract is terminable at will without cause by either party with 90 days prior written notice, while our Adobe contract is terminable upon breach or mutual agreement of the parties. We cannot assure you that these IT vendors will renew or will not terminate these contracts and licenses, as they may decide in the future to work with other testing service providers, provide the testing services themselves or license course materials to another course program developer or to the schools directly. If we were to lose the right to offer certification tests or course programs for these IT vendors, our revenues and results of operations could be materially harmed.

Substantial defaults by our clients on accounts receivable could have a material adverse effect on our results of operations and financial condition.

Our accounts receivable as of March 31, 2009 were RMB71.1 million ($10.4 million). We had accounts receivable aged over one year of RMB12.7 million ($1.9 million), including accounts receivable from sales of NTET Tutorial Platform software. For the fiscal year ended March 31, 2009 we had a RMB6.5 million ($1.0 million) bad debt allowance related to accounts receivable. If clients which owe us accounts receivable were to become insolvent or otherwise unable to pay for our services or make payments in a timely manner, our liquidity would be adversely affected and we would have to write off accounts receivable or increase provisions against our accounts receivable, any of which could adversely affect our results of operations and financial conditions.

Any actions that are in violation of the law or otherwise harmful to our business or our reputation by independent distributors who sell our NTET Tutorial Platform software could negatively impact our brand image and our results of operations.

We offer our NTET Tutorial Platform software through independent distributors. We sell all title and distribution rights to the distributors upon delivery. We do not provide upgrades or any additional post-contract

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services, which are the responsibility of the distributors who sell our NTET Tutorial Platform. We do not have any control over the business activities of the independent distributors after our sale of the software to them. If one or more of our distributors engages in activities that violate applicable laws and regulations or that are otherwise harmful to our business or our reputation in the market, it could expose us to negative publicity and damage our brand image. Moreover, if our distributors fail to provide adequate, satisfactory and effective after-sales support, our brand image may suffer, and our business and results of operations could be materially adversely affected.

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.

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.

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 to date experienced major problems due to errors, breakdowns, failures, bugs or defects, we cannot assure you that we will not experience such problems in the future. If such a problem were to occur, it could disrupt or compromise the integrity of the test taking process or 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 develop our test preparation and training solutions, we plan to accelerate our efforts to establish a wider recognition of the ATA brand to attract students from all over China and around the world to our test preparation and training solutions. To establish a wider recognition of our ATA brand among students and test takers, we may need to spend significant resources on advertising and distribution channels. 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, 2009, we had contractual relationships with 1,925 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 in a manner consistent with our standards and requirements, or hire qualified personnel and train them properly. 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 Chinese competitors, and may face increasing competition from domestic rivals. If we fail to successfully compete, our revenues and market share may decrease, and our results of operations may be adversely affected.

We face a number of Chinese international competitors. Some of these competitors have longer operating histories, better recognized brands, larger technical staffs, stronger relationships with our existing IT industry clients and/or greater financial, technical and marketing resources than we possess. In addition, because the markets for the services we offer are relatively new and growing rapidly, we anticipate that new entrants, both domestic and international, 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, Prometric and Pearson VUE are our main competitors. We compete with these and other computer-based testing services providers 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, many recruitment service companies in China, such as 51jobs.com, ChinaHR and Zhaopin.com, provide similar testing services to help employers screen candidates. However, we believe their main business focus is in the area of job postings and candidate search, while we focus on offering more professional testing services with proprietary testing technologies. While TOEIC is well-established globally as a leading business English assessment tool, there is a broad range of competing English certification programs available in China, including the Chinese government-administered College English Test, or CET 4 and 6 exams, one of the most popular English certification programs developed domestically and taken by over ten million test takers a year, and other international commercial English certifications such as Business English Certificates, or BEC, and Business Language Testing Service, or BULTAS, from Cambridge ESOL. In relation to our career-oriented educational services, we face competition from international companies, such as Aptech Limited and NIIT Limited. Aptech Limited operates in China primarily through its joint venture with BeiDa Jade Bird. Although these two companies offer IT-related courses to post-secondary educational institutions in China, based on our market experience and client communications we believe they do not directly compete with our products and services. For example, these two companies design their own course content and exams and provide passing students with their own proprietary certifications, rather than offering course content and certifications designed by well-known IT vendors, as we do. 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.

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

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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 to protect 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 and practice 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.

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

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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. 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.

We may be subject to liability claims for any inaccurate or inappropriate content in our course programs, which could cause us to incur legal costs and damage our reputation.

For some IT vendors we license the content for our course programs from the IT vendor, while for others we develop the content ourselves in cooperation with IT vendors and other subject-matter experts. We generally do not require that these content development partners indemnify or otherwise compensate us for inaccurate or inappropriate materials included in the course programs. Furthermore, our agreements for delivery of our course programs do not exclude or limit our liability for inaccurate or inappropriate course content. Therefore, we may face civil, administrative or criminal liability if an individual or corporate, governmental or other entity believes that the content of any of our course programs violates any laws, regulations or governmental policies or infringes upon its legal rights. Even if such a claim were not successful, defending such a claim may cause us to incur substantial costs. Moreover, any accusation of inaccurate or inappropriate conduct could lead to significant negative publicity, which could harm our reputation and future business prospects.

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 difficulties implementing our acquisition strategy, 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;

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, expected future cash flows from operations, particularly from testing services and test preparation and training solutions, 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;

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.

If we fail to establish an effective system of internal control over financial reporting, we may not be able to accurately and timely report our financial results or detect or prevent fraud. In addition, investor confidence in us and the market price of our ADSs may be adversely impacted if we find that, or our

independent registered public accounting firm reports that, our internal control over financial reporting is ineffective in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

We are subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring every public company to include a management report on such company s internal control over financial reporting in its annual report, which contains management s assessment of the effectiveness of the company s internal control over financial reporting. In addition, an independent registered public accounting firm must report on our internal control over financial reporting. These requirements are being first applied to this annual report on Form 20-F for the fiscal year ended March 31, 2009.

Our management has concluded that our internal control over financial reporting was effective as of March 31, 2009. Our independent registered public accounting firm also issued a report on the effectiveness of our internal control over financial reporting. See Item 15. Control and Procedures. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting. Moreover, effective internal controls over financial reporting are necessary for us to produce reliable and timely financial reports, and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs.

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, 2009, 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

Changes to Chinese government regulation of, or policies relating to, tuition fees may have a material and adverse effect on our business and results of operations.

During the fiscal years ended March 31, 2007, 2008 and 2009, 50.4%, 28.2% and 19.6%, respectively, of our total net revenues came from license fees charged to vocational schools and other educational institutions in China for our career-oriented test-based educational services. We receive license fees for our educational services on a per-student basis. If the tuition fees chargeable by our educational institution clients were to decline, we may have difficulty maintaining or raising the per-student fees we charge for our educational services. As tuition fees are heavily regulated in China, any change in policy lowering or eliminating tuition fees chargeable by vocational schools or other educational institutions may have a negative impact on our pricing power and revenues generated from the license of our educational services. The Chinese government has tightened controls on tuition and other fees collected by certain types of educational institutions in China. While this has not had a noticeable impact on tuition fees chargeable for courses taught using our educational services, in the future there may be changes to Chinese policies and regulations regarding tuition fees that will have a negative impact on our business and results of operations.

Changes to preferential policies adopted by the Chinese government related to vocational education may negatively affect our business and results of operations.

The Chinese government has adopted preferential policies for the development of vocational schools in China, including The Decision to Enhance the Promotion of the Reform and Development of Vocational

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Education and The Decision to Enhance the Development of Vocational Education published by the State Council in September 2002 and October 2005, respectively. These decisions require all levels of government 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. We believe that these governmental policies have encouraged clients to purchase our services and increased the funding available for purchasing our course programs. If these preferential policies were to be reduced or eliminated, it may negatively affect our business and results of operations.

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.

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 us, 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. However, we are not aware that any application for registration of an equity pledge has been processed by the local administration for industry and commerce in Beijing due to the lack of registration procedures, and we have therefore not yet registered our equity pledge over ATA Online s equity. ATA Online intends to register the equity pledge once the local registration authority implements registration procedures.

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, which accounted for 4.1% of our total net revenues for the fiscal year ended March 31, 2009.

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;
- 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;

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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;

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.

Realization 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 Testing Authority (Beijing) Limited, or ATA Testing, under the contractual arrangements have been set, no such services have been performed, and no payments have been invoiced or made under any of the contracts between ATA Testing 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.

We rely on contractual arrangements with ATA Online and its shareholders for operating, and for receiving the economic benefits from, our online test preparation services. However, these contractual arrangements do not provide us with ownership interest in ATA Online.

These contractual arrangements are governed by Chinese or Hong Kong Law and provide for the resolution of disputes through arbitration in the PRC. Accordingly, these contracts would be interpreted in accordance with Chinese or Hong Kong Law and any disputes would be resolved in accordance with Chinese or Hong Kong legal procedures. If ATA Online or its shareholders fail to perform their respective obligations under these contractual arrangements, we may have to (i) incur substantial costs and resources to enforce such arrangements, and (ii) rely on legal remedies under Chinese or Hong Kong Law, including seeking specific performance or injunctive relief, and claiming damages, which we cannot be sure would be effective. For example, if Kevin Xiaofeng Ma were to terminate his employment with us, he would be obligated pursuant to these contractual arrangements to transfer his share ownership in ATA Online to us or our designee. If he were to refuse to effect such a transfer, or if he were otherwise to act in bad faith toward us, then we may have to take legal action to compel him to fulfill his contractual obligations. However, the legal environment in the PRC is not as developed as in the United States and uncertainties in the Chinese legal system could limit our ability to enforce

these contractual arrangements. In the event that we are unable to enforce these contractual arrangements, our business, financial condition and results of operations could be materially and adversely affected.

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. If ATA Online goes bankrupt and all or part of its assets become subject to liens 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 these assets, thereby hindering our ability to operate our online test preparation business, which could materially and adversely affect our business, financial condition and result of operations.

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.

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. 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.

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The M&A Rule establishes more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The M&A Rule establishes additional procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise. In the future, we may grow our business in part by acquiring complementary businesses, although we do not have any plans to do so at this time. Complying with the requirements of the M&A Rule to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

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, 2008 and 2009, the PRC consolidated entities appropriated RMB0.1 million and RMB3.3 million ($0.5 million), respectively, 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.

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

Prior to January 1, 2008, the effective date of the new PRC Enterprise Income Tax Law, or new EIT Law, both domestic and foreign-invested enterprises were generally subject to an enterprise income tax rate of 33% in the PRC under the relevant tax laws. Prior to January 1, 2008, our subsidiaries incorporated in China, ATA Testing and ATA Learning, were governed by the PRC Enterprise Income Tax Law for Foreign-Invested Enterprises and Foreign Enterprises. Our consolidated VIE ATA Online was subject to the PRC Enterprise Income Tax Provisional Regulations. However, qualified high-and-new technology enterprises incorporated in high-and-new technology development zones designated by the State Council might enjoy a reduced enterprise income tax rate of 15%. As a high-and-new technology enterprise incorporated in the Beijing High-Tech Development Experimental Zone, which was a designated high-and-new technology development zone, each of ATA Testing, ATA Learning and ATA Online was entitled to a preferential-enterprise income tax rate of 15%.

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. However, under the New EIT Law, enterprises that were established before March 16, 2007 and already enjoy preferential tax treatments will 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 advanced-and-new technology enterprises elegible for key support from the State (ANTE) are entitled to a preferential tax rate of 15%. In January 2009, ATA Testing successfully obtained its ANTE certificate under the New EIT Law and new high-tech regime and is therefore recognized as an ANTE and qualified for a preferential tax rate of 15%. However, the ANTE certificate is only valid for a period of three years starting from

2008 to 2010. The continued qualification of an ANTE for calendar years of 2009 and 2010 will be subject to annual evaluation by the relevant government authority in

China. In addition, ATA Testing will need to apply for an additional three-year extension upon the expiration of the current qualification certificate if it desires to continue to enjoy the 15% reduced rate. We cannot assure you that ATA Testing will continue to qualify as an ANTE under the New EIT Law, 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.

If we receive dividends from our operating subsidiaries located in the PRC, such dividends may be subject to PRC withholding tax.

The newly enacted PRC Enterprise Income Tax Law, or the New EIT Law, and the implementation regulations for the New EIT Law issued by the PRC State Council, became effective as of January 1, 2008. The New EIT Law provides that a maximum income tax rate of 20% may be applicable to dividends payable to non-PRC investors that are non-resident enterprises, to the extent such dividends are derived from sources within the PRC if such dividends are derived from profits generated after January 1, 2008, and the State Council has reduced such rate to 10% through the implementation regulations. We are a Cayman Islands holding company and may receive dividends from our operating subsidiaries located in the PRC. Thus, dividends paid to us by our subsidiaries in China may be subject to the 10% income tax if we are considered as a non-resident enterprise under the New EIT Law. If we are required under the New EIT Law to pay income tax for any dividends we receive from our subsidiaries, our income tax expenses will be increased and the amount of dividends, if any, we may pay to our shareholders and ADS holders may be materially and adversely affected.

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 recent circular issued by the State Administration of Taxation on April 22, 2009 regarding the standards used to classify certain Chinese-invested 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. This recent circular also subjects such resident enterprises to various reporting requirements with the PRC tax authorities. Under the implementation regulations to the enterprise income tax, 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, the recent circular mentioned above details that certain Chinese-invested 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.

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

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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 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 or ATA Learning 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.

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 resident 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. 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.

We have urged our 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 rely principally 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.

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 growth of China s economy has experienced a significant slowdown since the second quarter of 2008, when the quarterly growth rate of China s gross domestic product reached 10.4%. A number of factors have contributed to this slowdown, including the recent global crisis in the financial services and credit markets, which in recent months has resulted in extreme volatility and dislocation of the global capital markets. In the first half of 2009, the growth rate of China s gross domestic product decreased to 7.1% as compared with the first half of 2008.

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. 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 principally include investments and loans, 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 Renminbi has appreciated steadily versus the U.S. dollar since the Chinese government stopped pegging the Renminbi to the U.S. dollar in July 2005. Although currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 0.5% per day and the People s Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. See Item 3.A. regarding recent exchange rate movements between the Renminbi and the U.S. dollar. In the future Chinese authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

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 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.

Risks Relating to Our ADS

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, 2008 and August 31, 2009, our ADS price as reported on Nasdaq ranged between a low of $2.75 and a high of $17.45. Though we believe the recent fluctuation resulted mainly from the current worldwide market disruption, numerous factors, many of which 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

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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.

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 September 14, 2009, there are 45,675,514 common shares outstanding. In addition, there are outstanding options to purchase an aggregate of 3,435,468 common shares, including options to purchase an aggregate of 2,987,862 common shares immediately exercisable as of the date of this annual report. 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 59.8% of our outstanding common shares as of August 31, 2009. 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 29.5% of our outstanding common shares as of August 31, 2009. 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.

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:

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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 of actions taken by management, members of the board of directors or controlling shareholders than they would as public shareholders of a U.S. company.

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

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

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

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

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 Holding. Initially, we held a 40% equity interest in ATA Learning. We also had a call option to acquire Yinchuan Holding s 60% equity interest for RMB30 million, and Yinchuan Holding had a put option that would have obligated us, if exercised, to purchase Yinchuan Holding s 60% equity interest for RMB30 million. In May 2005, we exercised our call option and converted ATA Learning into a wholly owned subsidiary of ATA BVI. As the primary beneficiary of ATA Learning, we have consolidated ATA Learning s results of operations in our U.S. GAAP consolidated financial statements since ATA Learning s establishment.

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.

ATA Learning (Wuxi) Inc., or ATA Wuxi was established in January 2008, as a subsidiary of ATA Learning to operate our pre-occupational training programs business.

In February 2009, we completed the acquisition of the entire equity interests 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.

We and our subsidiaries also previously held equity interests in the following entities:

In December 2001, ATA Testing established and held a 50% interest in a Chinese joint venture company, Beijing Sai Er Xingyuan Leadership Ability Testing Technologies Development Co. Ltd., or Sai Er Testing, with one other joint venture partner. In October 2005, ATA Testing sold its 50% equity interest in Sai Er Testing.

In April 2002, ATA Testing established a Chinese joint venture company, Jiangsu ATA Software Co. Ltd., or ATA Jiangsu, with two other joint venture partners, with ATA Testing holding 30% of the equity interest in ATA Jiangsu. In May 2006, ATA Jiangsu completed a voluntary winding up.

In April 2005, ATA Learning established Xiamen Wendu Software Education Investment Co. Ltd., or Wendu Education, with two other partners, with ATA Learning holding 40% of the equity interest in Wendu Education. In August 2007, ATA Learning completed the sale of its 40% equity interest in Wendu Education.

We disposed these interests to eliminate these entities from our corporate structure and streamline our operations. 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. 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, insurance and accounting. Our computer-based testing services clients principally include professional associations, such as the China Banking Association and the Securities Association of China, 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 1,925 authorized test centers located throughout China as of March 31, 2009. 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, 2009, we have delivered over 29 million tests, including approximately ten million free tests for business development purposes. Over the course of two days on May 31 and June 1, 2008, we delivered tests to more than 470,000 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, 2009, approximately 5.1 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 test-focused services targeted at educational institutions, students and companies in China. Since 2002, we have marketed to educational institutions in China career-oriented educational course programs designed to prepare students to pass certification exams in the IT industry and other vocations. We also offer targeted test preparation and training solutions for certain professional licensure and certification tests in the securities, insurance and teaching industries. ATA Online has launched online test preparation Internet web sites in coordination with the Securities Association of China and the China Banking Association to help candidates across China prepare for these organizations 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. More recently, we have 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.

Our total net revenues have increased from RMB84.9 million in the fiscal year ended March 31, 2007 to RMB172.1 million in the fiscal year ended March 31, 2008 and RMB217.5 million ($31.8 million) in the fiscal year ended March 31, 2009. See Item 5.A. Operating and Financial Review and Prospects Operating Results Net Revenues for detailed disclosure regarding net revenues broken down by the main category of services performed for each of the last three fiscal years. We had net loss of RMB16.8 million in the fiscal year ended March 31, 2007, and net income of RMB20.2 million and RMB22.8 million ($3.3 million) in the fiscal years ended March 31, 2008 and 2009, respectively.

Our Test Delivery Platform and Technologies

We offer our clients a comprehensive platform and suite of technologies for the development and delivery of computer-based tests. Our E-testing platform integrates all aspects of the test delivery process for computer-based tests, from test form compilation to test scoring and results analysis. Our test delivery services are further enhanced by our nation-wide network of test centers, which allows us to deliver both computer-based and paper-based tests on a large scale in a consistent, secure and cost-effective manner. We also offer our clients advanced technologies and software applications for the creation of sophisticated computer-based tests, including advanced performance-based tests. 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.

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 30 servers. We periodically upgrade our equipment and software applications to handle increasing testing volume as required.

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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 Hong Kong, which we refer to as our ATA authorized test centers. As of March 31, 2009, we had contractual relationships with 1,925 ATA authorized test centers, of which 1,347 had hosted tests delivered through our testing platform during the preceding 24-month period. 1,358 of our authorized test centers 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, 2009:

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, such as Microsoft Learning Centers, with which we enter into contracts to carry out specific tests for specific test sponsor clients. 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. Under either fee arrangement, our licensees can extend their licensing agreement with us indefinitely.

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Our Test Content Creation and Management Technologies

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

Our Dynamic Simulation Technology is a performance-based testing technology that 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 go down multi-level testing paths where each response will lead the test taker to a different set of questions and problems. 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:

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 we are the only company in the world that has developed and is marketing interpreter-based simulation technology for testing and educational use. For this reason, we believe our Dynamic Simulation Technology is the world s leading technology for the creation and illustration of performance-based tests through simulation.

We have also developed two non-simulation testing technologies: Real Environment Technology and ATA Markup Language. Our Real Environment Technology is used for creating, illustrating and running performance-based tests and learning exercises that operate 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 using 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.

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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, such as Microsoft, and third-party test preparation companies for the creation of test items and test preparation course exercise items for Microsoft Learning Products, including Microsoft Certified Professional Exams, 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 in creating and delivering a wide range of computer-based tests, including:

- licensure tests administered by governmental agencies that test the competence of candidates for positions with various governmental agencies or for certain types of jobs, and public exams administered by provincial-level human resources bureaus;

- professional association or qualifications tests required by 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 Securities Association of China 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;
  - 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.

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: multiple-choice 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 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 to enable test forms to be formulated. Test forms with equal level of difficulty are generated through random item selection from the test item bank based on the pre-defined blueprint of the test to ensure fairness across test forms.

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 downloading 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 licensing fee for our test delivery platform based on a client s individual needs. These support services include:

- managing test taker registration and scheduling;
- 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.

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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. In March 2009, we signed a cooperation agreement with ETS, the world s largest educational research and assessment organization, to become the exclusive distributor and test administrator of ETS s TOEIC exams in China. 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 5,000 organizations around the world in more than 60 countries, with more than five 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 March 2009, in which 3,909 exam takers participated in three cities across China. We collect a per-test taker fee for each test delivered. TOEIC exams in China are currently only delivered in a paper-based format. However, we are undergoing feasibility studies with ETS to develop computer-based TOEIC exams to be delivered in China in the future through our ATA authorized test center network.

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. We market these educational services to universities and vocational schools throughout China to provide to their students. These course programs package the testing and certification component of our testing services with licensed learning materials to provide an integrated learning and assessment solution. Many of the tests contained in our course programs have incorporated our advanced performance-based testing technologies to encourage hands-on real-world interactive learning experiences.

Our educational services allow academic institutions to provide more career-oriented content and practical skills to assist their students in more easily securing employment. At the same time, our educational services are attractive to IT vendors and other certification providers as they help to increase the market prevalence and acceptance of the software applications and technologies taught in the course program by hooking students onto those technologies and by motivating employers to adopt the technologies due to the larger talent pool proficient in operating them.

Single course programs. 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. We work closely with both the certification providers, which are usually well-known IT vendors, and the academic institutions to ensure the course and final exam content fully satisfies all of their respective requirements and maximizes the student s learning experience. Upon successful completion of the course work and related computer-based examination, the student will obtain a qualification certification from the IT vendor or other certification provider as well as academic credit from the student s school. We contract with academic institutions to license the course program for the course period, which usually lasts for one academic semester. The license can be subsequently renewed for each new course semester. We generally provide the following services to the academic institution as part of our course programs:

- installing the ATA E-testing platform on the school s computer system or, in the case of a renewal of the course license, performing an upgrade of the existing platform for the new course;

- at the beginning of each course period, providing students and teachers with course materials, which include textbooks, compact disks, visual lab equipment, slides, flash video case studies and exercise items;

during the course period, providing ongoing support relating to the course and test software and the course materials, such as content updates, software upgrades, telephone support for teachers and students, online support including downloadable teaching guides, articles by well-known instructors and sample test materials available at our web site;

at the end of each course period, uploading authorization information to permit the school to administer the final exam;

delivering a second exam at no extra charge to each enrolled student who fails the final exam on the first try;

on request and subject to additional fees, providing training sessions for course teachers during the summer or winter holidays for a separate fee charged to the schools, which we record as training revenue; and

where necessary, preparing and delivering certificates for test takers who have passed the test certification requirement.

We charge educational institutions a fixed fee for these services on a per-student, per-course basis based on our perceived market value of the certification to be awarded to the student at the completion of the course.

Degree major course programs. 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 contracts with academic institutions for degree major course programs are similar to our contracts for single course programs. We license the various single course programs contained within the degree major course program to the schools for the duration of the degree major course program period. We also provide substantially the same support and other services as we provide for single course programs.

Pre-occupational training programs. Vocational school students in China are generally required to spend one semester prior to graduation in an internship. However, many student s have difficulty finding quality internships that provide the opportunity to hone practical skills prior to entering the job market. To provide these students with more alternatives, we have worked with vocational schools and our IT vendor clients to develop pre-occupational training programs to help meet the internship requirement. These 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. Students are organized into small groups and given a series of specific job tasks, with each student s role within the small group changing at intervals during the program period. A typical pre-occupational training program will last two to three months. Software applications using our performance-based testing technology help guide and monitor the student s progress in completing the required tasks and are able to provide constant feedback to enhance the learning experience and improve the student s performance. Our pre-occupational training programs are offered principally to students enrolled in schools offering our course programs and are particularly well-suited for students taking one of our degree major course programs.

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 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 in these industries.

Online test preparation and training platform for the securities, insurance and banking industries. Leveraging the increased scale of ATA-delivered securities, insurance and banking professional licensure and certification tests, in November 2006, ATA Online launched online test preparation Internet web sites in coordination with the Securities Association of China. These web sites were launched to provide a flexible and

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scalable platform aimed at helping test candidates across China to practice and prepare for professional licensure and certification tests delivered by ATA. Test preparation customers gain access to Internet web sites that contain the latest test related topics, preparation materials provided by the test sponsors and streaming video teaching sessions and practice tests developed by ATA. A stored value card-based credit system allows each customer unlimited use of online mock testing during a specified service period, which normally ranges from 90 to 180 days from the date of activation of the card. These cards are sold directly to test candidates or to our test sponsor clients, who then distribute the stored value cards nationwide to interested test candidates.

Starting in 2007, the China Securities Regulatory Commission, with our assistance, began to more vigorously track and enforce mandatory continuing professional training requirements for licensed securities professionals. Each licensed securities professional must satisfy an annual minimum hourly training requirement to maintain their securities license. In response, ATA Online upgraded its securities test preparation web site to allow securities professionals to meet the continuous professional training hours requirement. We plan to market similar test preparation and training web sites to our other test delivery clients to assist them in launching nationwide, scalable and flexible test preparation and training programs.

NTET Tutorial Platform test preparation software for the teaching industry. In November 2006, we began offering 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. Our revenues from the sale of our NTET Tutorial Platform in the fiscal year ended March 31, 2009 decreased due to lower approved budgets by relevant governmental agencies for procuring this software as the deadline for the national NTET test has been deferred.

Cambridge ESOL Young Learners English online tutorials. In September 2008, we entered into an agreement with Ministry of Education to develop and provide online tutorial programs to students enrolled in its Cambridge Young Learners English programs in China, which are generally targeted at children ages four to 12. We expect to launch this service during our fiscal year ending March 31, 2010.

HR Select Employee Assessment Solution

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

- 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 1,000 evaluation modules and a sample test item bank containing millions of test questions. For example, TOEIC and SHL assessment titles 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.

Our current HR Select clients principally include large domestic and foreign-invested companies in highly skill-intensive industries such as insurance and banking. 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 RMB3,880 annual subscription, with additional fees charged depending on volume, specific test titles utilized and whether ATA authorized test centers are used.

Data Storage and Security

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

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

Preparation and Storage of Test Items

To reduce the risks associated with potential unauthorized disclosure or misuse of test questions by ATA personnel during the process of creating test item banks, we divide test item authoring and management tasks among multiple persons and limit each person s access to the test item content through the use of access permissions. Each test item author is only responsible for creating a limited amount of test item content and is permitted access only to that content for which that person is responsible. As a result, no one has full access to the contents beyond his or her scope of work. Test item bank managers receive limited permissions and are not given access to 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 *tm* equipment, which permits real-time back-up. We encrypt all test item banks using our self-developed encryption technologies, which prevent 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 data recorded 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

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 to acknowledge 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 51 software copyrights relevant to our product and service offerings with the Copyright Protection Center of China.

Our ATA trademark has been registered with the China Trademark Office. We have also registered 21 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.

We have chosen not to obtain any patents for our testing technologies for a number of reasons. Principally, we believe 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 the risks involved in obtaining a patent, which would be publicly accessible, outweigh the potential benefits. Expertise underlying our testing technologies enjoys 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 China Banking Association and the Securities Association of China accounted for 24.8% and 26.2%, respectively, of our total net revenues for the fiscal year ended March 31, 2009. No other client accounted for more than 10% of our total net revenues for the fiscal year ended March 31, 2009.

As of March 31, 2009, we had 164 contracts with test sponsors for our computer-based testing services. For the fiscal year ended March 31, 2009, our five largest computer-based testing services clients based on revenue were:

- 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 Securities Association of China, which has been designated by the China Securities Regulatory Commission as the sole administrator of securities 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

the Testing Center of the PRC Ministry of Education.

These five clients represented an aggregate of 57.9% of our total net revenues for the fiscal year ended March 31, 2009.

During the fiscal year ended March 31, 2009, 220 Chinese educational institutions were offering our course programs, of which 148 were offering our degree major course programs and 94 were offering our single course programs.

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 the entire selling cycle, 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 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 design and operate 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.

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Competition

In relation to computer-based testing services, we compete with domestic Chinese and international computer-based testing service providers. Prometric and Pearson VUE are our main competitors in China. We compete with them primarily based on technology, price, management experience and established infrastructure. We believe our overall testing services and technologies compare favorably with the services and technologies offered by these competitors. Moreover, we believe that our nationwide test center network and test delivery platform provides us with a significant competitive advantage over these two competitors. We believe 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.

For our HR Select employee assessment solution, many recruitment service companies in China, such as 51jobs.com, ChinaHR and Zhaopin.com, provide similar testing services to help employers screen candidates. However, we believe their main business focus is in the area of job postings and candidate search, while we focus on offering more professional testing services with proprietary testing technologies. We also believe the large inventory of test titles and availability of a nationwide test center network set us apart from these recruitment service providers. While TOEIC is well-established globally as a leading business English assessment tool, there is a broad range of competing English certification programs available in China, including the Chinese government-administered CET 4 and 6 exams, one of the most popular English certification programs developed domestically and taken by over ten million test takers a year, and other international commercial English certifications such as BEC and BULTAS from Cambridge ESOL.

In relation to our career-oriented educational services, we face competition from international companies, such as Aptech Limited and NIIT Limited. Aptech Limited operates in China primarily through its joint venture with BeiDa Jade Bird. Although these two companies offer IT-related courses to post-secondary educational institutions in China, based on our market experience and client communications we believe they do not directly compete with our products and services. For example, these two companies design their own course content and exams and provide passing students with their own proprietary certifications, rather than offering course content and certifications designed by well-known IT vendors, as we do.

Traditional Chinese test preparation material providers, such as publishing companies, indirectly compete with our test preparation and training solutions. However, we are not aware of any significant competitors in China in the online test preparation and training solutions business. In relation to our simulation technologies, there are a few U.S.-based companies providing performance-based testing technologies, including Certiport, Inc.

We are aware of only a handful of other simulation testing technology developers, which primarily focus on the training and test preparation business market in the United States. We believe, based on communications with our clients and others in the industry that our simulation testing technology compares favorably to those offered by other companies and in other countries, including the United States.

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 and developing course and test content for educational programs, will make it difficult for new entrants or international competitors to quickly gain market share from us in China. We believe potential domestic entrants lack the technology and commercial relationships that we have already developed with domestic and international test sponsors. 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 quarter ending December 31 typically having the highest net revenues from testing services and the quarter ending March 31 typically having the lowest net revenues from testing services. Under our contracts with test sponsors, we have the right to receive payment approximately one month after a test is delivered, and our clients pay us within three to six months of

delivery. We therefore may experience substantial increases in our accounts receivable balance at the end of the quarter ending December 31 of each year. Also, revenues from our degree major and single course programs may experience seasonal declines during the quarter ending September 30 of each fiscal year, which includes the summer holiday months of July and August, since we do not recognize revenues in July and August for the last year of each degree major course program and for most single course programs. In addition, we have expanded our test preparation and training solutions business. We believe demand for test preparation and training solutions are generally highest close to test and certification requirement deadlines, which are typically during the quarter ending December 31. Therefore we expect revenues from test preparation and training solutions to be the highest in the quarter ending December 31. We also expect some seasonality in our accounts receivable related to degree major programs, because we collect from our clients typically around the months of October to November, and a large portion of our clients settle payment with us two to five months after that time.

Regulation

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

Regulation of the Software Industry

In China, holders of computer software copyrights enjoy protection under the Copyright Law of the People s Republic of China, or the Copyright Law. Under the Copyright Law, China s State Council and the State Copyright Administration have also promulgated various regulations relating to the protection of software copyrights in China. Under these regulations, computer software that is independently developed and exists in a physical form will be protected, and software copyright owners may license or transfer their software copyrights to others. Registration of software copyrights and exclusive licensing and transfer contracts with the Copyright Protection Center of China (previously, the State Copyright Administration) or its local branches are encouraged. Such registration is not mandatory under Chinese 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 51 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, respectively, on September 24, 2002 and October 28, 2005. 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:

- 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.

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. 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:

- 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 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.

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

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 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. We have registered 21 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 any 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 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 exchange rate for conversion of Renminbi into foreign currencies is heavily influenced by intervention in the foreign exchange market by the People s Bank of China. From 1995 until July 2005, the People s Bank of China intervened in the foreign exchange market to maintain an exchange rate of approximately 8.3 Renminbi per U.S. dollar. On July 21, 2005, the Chinese government changed this policy and began allowing appreciation of the Renminbi versus the U.S. dollar. However, the Renminbi is restricted to a rise or fall of no more than 0.5% per day versus the U.S. dollar, and the People s Bank of China continues to intervene in the foreign exchange market to prevent significant short-term fluctuations in the Renminbi exchange rate. Nevertheless, under China s current exchange rate regime, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. The Renminbi appreciated 21.07% versus the U.S. dollar from July 21, 2005 to March 31, 2009. There remains significant international pressure on the Chinese government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant appreciation in the value of the Renminbi against the U.S. dollar.

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.

Our shareholders who are Chinese residents did not establish our offshore companies as part of a round-trip investment to acquire or control through our offshore companies onshore assets or equity interests originally held by such Chinese resident shareholders. Nevertheless, to ensure that we remain in full compliance with all Chinese foreign exchange-related regulations, our Chinese resident shareholders have applied for registration with the Beijing branch of SAFE under Notice 75 in 2006, but were orally informed that the application could not be accepted because Notice 75 does not apply to them. 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. We have urged our 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

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 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 and share ownership structure. Except for ATA BVI and JDX BVI, which are 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.

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In July 2009, ATA Testing increased the paid-in capital from US$2.5 million to US$15.0 million.
In August 2009, ATA Online increased the paid-in capital from RMB1.0 million to RMB10.0 million.

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. ATA Learning (Wuxi) Inc., or ATA Wuxi was established in January 2008, as a subsidiary of ATA Learning to operate our pre-occupational training programs business. We do not have any direct ownership interest or direct shareholding rights in ATA Online and as a result do not have direct control or direct oversight over 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 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 2,170 square meters of office space leased by us at Tower E, 6 Gongyuan West Street, Jian Guo Men Nei, Beijing 100005, China. We also occupy approximately 3,000 square meters of total leased office space in our subsidiaries and branches located in Shanghai, Fuzhou, Nanjing and Wuhan. On August 7, 2008, we entered into agreements to purchase our Beijing office building for total cash consideration of RMB51.5 million. On August 12, 2008, RMB0.4 million was paid to the seller as a deposit, and the remainder of the consideration was paid to the sellers on July 21, 2009. 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. 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 have experienced significant growth in our business during the fiscal years ended March 31, 2007, 2008 and 2009. Our total net revenues have increased from RMB84.9 million in the fiscal year ended March 31, 2007 to RMB172.1 million in the fiscal year ended March 31, 2008 and RMB217.5 million ($31.8 million) in the fiscal year ended March 31, 2009. We had net loss of RMB16.8 million in the fiscal year ended March 31, 2007, and net income of RMB20.2 million and RMB22.8 million ($3.3 million) in the fiscal years ended March 31, 2008 and 2009, respectively.

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. Testing services revenues accounted for 29.0%, 45.4% and 63.0%of our total net revenues in the fiscal years ended March 31, 2007, 2008 and 2009, 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 blue collar 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,

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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 will be 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, 2005, 2006, 2007, 2008 and 2009.

Number of Exams Delivered [(1)]

(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, 2005, 2006, 2007, 2008 and 2009 was 1,860,412, 2,067,714, 3,335,701, 3,632,285 and 5,063,379, respectively. We delivered 9,155,185 free tests in the fiscal year ended March 31, 2008 for the on-line nationwide accounting knowledge contest.

Leveraging our testing expertise, in 2002 we began offering our career-oriented course programs, which we market to Chinese educational institutions. We develop our course programs by integrating our testing technologies and services with IT learning content authorized by major IT vendors. In March 2006, we began to offer pre-occupational training programs, which are programs with trained instructors that allow students to obtain practical skills through exercises designed to more closely align their skills with specific job requirements. Licensing fees from test-based educational services accounted for 50.4%, 28.2% and 19.6% of our total net revenues in the fiscal years ended March 31, 2007, 2008 and 2009, respectively. We expect revenues from our test-based education services to continue to decline. Since December 2008, we have redirected most of our sales and marketing efforts from our test-based education services towards our newly developed testing services such as HR Select and TOEIC where we believe there is greater market opportunity.

By integrating our testing technologies with targeted test preparation content for certain professional licensure and certification tests, in 2006 we began offering test preparation and training solutions for the securities, insurance and teaching industries. ATA Online, our affiliated PRC entity, launched online test preparation web sites in coordination with the Securities Association of China, the China Futures Association and the China Banking Association to help candidates across China practice and prepare for these organizations professional licensure and certification tests, which tests are delivered by us through our test delivery platform. We also began offering, in November 2006, our NTET Tutorial Platform software, which comprises a comprehensive set of training materials to prepare teachers for certification under the National Teachers Skill Test of Applied Educational Technology in Secondary and Elementary Schools, or NTET test, which is delivered nationwide through our test delivery platform. We suspended offering our NTET Tutorial Platform in October 2008 as a result of a delay in the timing of the teachers certification testing requirement deadline. We have recently 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. Revenues from this program, which we expect to launch during the fiscal year ending March 31, 2010, will be included in test preparation and training solutions revenues. Revenues from our test preparation and training solutions accounted for 21.5% and 11.5% of our total revenue in the fiscal years ended March 31, 2008 and 2009, respectively.

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On October 15, 2007, the Company entered into acquisition agreements to purchase the entire equity interests of Beijing JDX and JDX BVI (the acquiree) for RMB10 million. Beijing JDX is a PRC incorporated entity primarily engaged in the development and marketing of software for computer-based tests. JDX BVI is a British Virgin Islands incorporated entity established by the equity holders of Beijing JDX (selling shareholders) to hold exclusive licensing rights for the use of technology owned by Beijing JDX. This acquisition is expected to expand the Company s customer base by allowing it to market test delivery services to the test sponsors that are using the products developed by Beijing JDX.

During the year ended March 31, 2008, cash payments of RMB4.3 million were made to the selling shareholders as a deposit for the acquisition. According to the supplementary agreement signed in August 2008, Beijing JDX should refund RMB2 million of the deposit with the remaining consideration of RMB7.7 million payable through the offset of a receivable due from the selling shareholders of RMB4.7 million related to the exercise of the warrant described below and cash of RMB3 million. As of March 31, 2009, the unpaid cash consideration was RMB2.3 million ($0.3 million), of which RMB2.0 million ($0.3 million) was paid in April 2009 and RMB0.3 million ($44,718) was paid in July 2009.

In conjunction with the acquisition agreements, the Company also issued warrants to purchase 126,803 of the Company s common shares to certain selling shareholders. The exercise price of the warrants was USD5.25 per share. The warrants were exercisable upon the closing of the transaction and expire on January 13, 2008. The fair value of the warrants was RMB0.8 million ($0.1 million), based on an independent valuation by Jones Lang LaSalle Sallmanns Limited using the Binomial option pricing model. The fair value of the warrants was recorded as a deposit for the acquisition with a corresponding credit to additional paid-in capital in the consolidated balance sheets. On January 5, 2008, the expiration date of the warrants was extended to April 30 and on April 24, 2008, the expiration date was further extended to June 30, 2008. On May 10, 2008, the warrants were exercised prior to the consummation of the acquisition that resulted in a further modification to the original term of the warrants. The common shares were delivered in February 2009 when the acquisition was consummated as described below. As a result of these changes to the original terms of the warrants, the fair value of the modified warrants was re-measured to RMB0.6 million ($92,515) based on an independent valuation by Jones Lang LaSalle Sallmanns Limited.

On February 28, 2009, the Company obtained the approval from the State Administration of Foreign Exchange (SAFE) for wiring foreign-currency-denominated purchase price into the PRC. On this date, the Company signed an agreement with the selling shareholders that the Company has obtained a controlling financial interest in the acquiree and effective control of the acquiree has been transferred to the Company. The results of Beijing JDX and JDX BVI have been included in our consolidated results since February 28, 2009.

The aggregate purchase price was RMB10.7 million ($1.6 million), including the above-mentioned fair value of the warrants of RMB0.6 million ($92,515) and legal fees of RMB94,082.

Factors Affecting Our Results of Operations

Some of the key general 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;

emphasis on, and government encouragement for, career-oriented and IT-related educational programs in China;

- 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;
- acceptance by educational institutions of our career-oriented and IT-related educational programs; and
- our ability to continue to introduce new services and their market success, including our HR Select service launched in March 2009, distribution and administration of TOEIC exams in China beginning in March 2009 and expected launch of Cambridge Young Learners English program during our fiscal year ending March 31, 2010.

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 Although the global financial crisis affected the overall Chinese economy in the second half of calendar year 2008 through the first half of calendar year 2009, we have not experienced a significant effect on demand for our products and services attributable to the crisis, and we do not anticipate that the crisis will significantly impact demand for our products and services in China in the fiscal year ending March 31, 2010.

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 certain preferential tax rates and tax holidays;
- valuation of tax loss carryforwards;
- foreign currency exchange losses;
- sales and marketing efforts used to introduce testing services and training programs marketed directly to private sector businesses or directly to consumers; 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 licensing fees for computer-based testing services, licensing fees for test-based educational services, sales of 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.

	For the fiscal year Ended March 31,						
	2007		2008		2009		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages)						
Net Revenues							
Testing services	24,628	29.0%	78,198	45.4%	137,046	20,057	63.0%
Test-based educational services	42,804	50.4%	48,595	28.2%	42,546	6,227	19.6%
Test preparation and training solutions	10,076	11.9%	36,908	21.5%	25,071	3,669	11.5%
Other	7,373	8.7%	8,387	4.9%	12,882	1,885	5.9%
Total net revenues	84,881	100.0%	172,088	100.0%	217,545	31,838	100.0%

Testing Services

We derive testing services revenues from licensing fees charged to test sponsors for our test delivery services and from simulation testing technology licensing.

Test delivery services. We generate test delivery services revenues through licensing fees charged for providing computer-based testing services to test sponsors such as governmental agencies, IT vendors and other sponsors of licensure and certification tests. 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 technology licensing 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 of 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 revenues and accounts receivable related to our test delivery services. We typically have higher net revenues from test delivery services in the quarter ending December 31 than in other quarters due to a generally higher number of tests delivered by our clients during that quarter. Net revenues from test delivery services are typically lowest in the quarter ending March 31. Our second largest quarter in terms of number of tests delivered may vary between the quarters ending June 30 and September 30 depending on whether certain large-scale tests, such as the banking licensure test, are scheduled in one or the other quarter. Depending on when we receive payment from our test sponsor clients, we may experience substantial increases in our accounts receivable balance at the end of the quarter ending December 31 of each fiscal year.

Simulation testing technology licensing. We license our Dynamic Simulation Technology and other simulation testing technologies to IT certification sponsors, such as Microsoft, and international test preparation service providers. Our technology licensing arrangements include annual license fees and royalty fees. Annual license fees are prepaid at the end of the quarter ending June 30 of each year, while royalty fees are payable quarterly. We recognize revenue from royalty fees in the quarter in which our simulation testing technology licenses are delivered, which is evidenced by the quarterly usage reports received from the licensees. Annual license fee revenues are recognized over the year on a straight-line basis. We have not experienced significant seasonality in revenues or accounts receivable in relation to our simulation testing technology licensing.

Significant Factors Affecting Testing Services

The most significant factor directly affecting our revenues from licensing 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. We expect the acceptance of our HR Select service by the private sector and growth of the TOEIC exam in China to impact our testing services revenues in the fiscal year ending March 31, 2010 and beyond. We believe test sponsors choose our services because (i) for all test sponsors, our testing services provide a proven and technologically advanced computer-based and performance-based testing format that is stable, cost-effective, secure, accurate and better able to assess the real-world, practical skills of test takers, (ii) for government test sponsors, our testing services allow governmental agencies to outsource the burden and difficulty of administering large-scale tests to a third-party service provider better equipped to handle the testing process, (iii) for IT vendors, our testing services help perpetuate the market prevalence of their products and technologies and help identify technical talent from across China, and (iv) for private enterprises, our HR Select service offers a comprehensive set of test titles and availability of test centers to cost effectively determine if a candidate is a suitable employee. Our revenues from licensing 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 numbers of people attempting to become qualified to participate in the industry, depending on the overall health of the relevant industry, changes in average salary levels in the relevant industry, the popularity of certain types of careers and employers, governmental policies that impact the relevant industry, or other factors. 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 upgrading existing test titles often requires us to expend considerable time and resources. Many of our clients administer tests to a large

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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, which can make it difficult for us to predict our revenues from licensing 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, which enables us to increase and diversify our revenues and to hinder the ability of competitors to secure contracts with the test sponsor. In addition, our ability to license our simulation technology to leading IT vendors and other clients that require cutting-edge computer-based simulation testing technologies depends largely on our ability to maintain and extend our technology leadership in this area.

In this regard, our revenues from licensing fees from test sponsors may be negatively affected if Microsoft exercises its contractual option to purchase the source code of our Dynamic Simulation Technology. See Item 3.D. Key Information Risk Factors Risks Relating to Our Business 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. We have not received any indication from Microsoft that it intends to exercise this purchase option.

Finally, our ability to roll out the delivery of new tests, particularly large-scale tests delivered nationwide through our network of ATA authorized test centers, can be complicated and time consuming, which may delay our ability to generate revenues under some of our contracts for delivery of tests that have not been delivered previously.

Test-Based Educational Services

We receive licensing fees from test-based educational services charged to educational institutions for our degree major course programs, single course programs and pre-occupational training programs.

Degree major course programs. Our degree major course programs are comprised of a series of individual course programs designed to help students acquire a cluster of skill sets that can best prepare them for specific job types and careers, and, in some cases, allow them to acquire certifications from well-known IT vendors. Our degree major course programs are designed to be completed within one to five years, with the majority being completed in two to three years. Our course content and related tests for each course in the degree major course program integrate our computer-based simulation and other testing technologies with IT learning content and certifications authorized by the IT vendors.

We generate revenues from our degree major course programs through licensing fees charged to educational institutions. Our licensing fees are charged per student per year and are agreed upon prior to delivery of any course or test materials. Our fee is payable shortly after confirmation by the educational institution of the number of students enrolled in each degree major course program near the beginning of each school year. For first-year courses, confirmation of the number of students enrolled in each degree major course program usually occurs one to two months into the school year because a small percentage of first-year students change their degree major in the first few months after commencement of the school year. Therefore, billing and payment collection for our first-year courses often does not occur until later in the school year. The fees are not refundable if the student fails to complete one or more of the courses or the entire degree major course program or fails any of the tests.

Revenues from our degree major course programs may fluctuate because revenues from the final year of the degree major course program are recognized over a ten-month period (generally September through June) while revenues from the first through the next-to-last years of the program are recognized over a 12-month period (generally September through August). We also expect some seasonality in our billing and accounts receivable related to degree major course programs. Our contractual right to collect from our clients typically falls around the months of October to November when the number of enrolled students is confirmed. A large portion of our clients settle payment with us two to five months after that time, around the months of December to March. Depending on the mix of clients that pay us in December or January each year, we may experience fluctuations in our accounts receivable balance and cash booked. As a result, our accounts receivable have historically been highest at the end of the quarter ending December 31 of each fiscal year.

Single course programs. Our single course programs typically center 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.

We generate revenues from our single course programs through licensing fees charged to educational institutions. We charge licensing fees for our single course programs based on a pre-agreed fee per student taking each course. A portion of the per-student fee, generally 30% to 100% of the total, is due prior to delivery of the course materials at the beginning of the course period based on the number of students who enroll in the course. The remainder of the per-student fee is due prior to delivery of the final test and is based on the number of students taking the final test. We charge schools based on our perceived market value of the certification to be awarded to the student at the completion of the course.

Our contracts for single course programs entered into prior to January 2006 were silent as to the term or period that we are required to provide services. Beginning in January 2006, we have revised the standard terms of our single course program contracts to stipulate that we have no obligations to provide future services after a definitive term even if the course has not been completed. Upon commencement of a single course program that does not have a definitive term, we estimate, based on our historical experience, the percentage of contracts that will be completed within 12 months, and recognize revenue for such contracts on a straight-line basis over a period of five months, which is the expected service period based on historical averages. For the percentage of contracts that are not expected to be completed within 12 months, we do not recognize revenue until the course is completed or we otherwise obtain confirmation from the educational institution that we no longer have any future obligations. For all single course programs that have a definitive term of service period, we recognize revenue on a straight-line basis over the service period or the contractual period, whichever is shorter.

At the end of each reporting period upon the closing of our financial records, we compare the revenue recognized at the onset of the contracts to the actual completion status of each contract, on a contract by contract basis, and make any revenue adjustments to reflect the actual completion status of the contracts. Given that substantially all course programs are delivered during a school year, which spans from September of each year to June of the following year, we will experience a substantial decrease in single course program revenues for the months of July and August each year. We do not expect significant accounts receivable from our single course program clients due to the fact that we bill and receive cash prior to delivery of a large portion of the relevant services.

Pre-occupational training programs. Our pre-occupational training programs provide trained instructors to teach students practical skills through exercises designed to more closely align their skills with specific job requirements. We generate revenues by licensing our pre-occupational training programs to educational institutions and from fees charged to educational institutions for arranging deployment of training instructors.

We currently run two models for our pre-occupational training programs: the co-operated model and the self-operated model. Under the co-operated model, we provide pre-occupational training personnel and programs, while the educational institutions provide the facilities, equipment and operational staff and are responsible for student in-take. We charge either on a consumption basis by referencing the number of enrolled students or by course hours consumed over the typical training period of two to three months or on a license basis by referencing the number of licenses purchased per year, which is determined by the number of courses that comprise the training program and working units in the training center. Alternatively, we also receive instructor deployment revenue based on the length of the program if a client requires us to deploy training instructors. Under the self-operated model, the training center is invested and operated by us. Participating schools send students to our training facilities and we collect fees based on the number of class units taken over the typical training period of two to three months.

We recognize revenue from licensing our pre-occupational training programs over the service delivery period on a straight-line basis, either over the typical training period of two to three months, or if the license fee charged is on a per-year basis, over the 12-month period from the commencement date. We typically collect cash either in full prior to delivery of the service, or 50% at the time when the service is first delivered and 50% just prior to completion of the service. Instructor deployment revenue is collected prior to instructor deployment, and is recognized on straight-line basis over the service delivery period.

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Significant Factors Affecting Test-Based Educational Services

We use the concept of student-months to track growth in our test-based educational services revenues from licensing fees charged to educational institutions for our degree major course programs, single course programs and pre-occupational training programs. Degree major student-months are calculated by first multiplying the number of students in each degree major by the number of months of that degree major course program in the relevant period and then adding the resulting numbers for all of our degree major course programs together to reach an aggregate degree major student-months figure for the period. Single course student-months are calculated by first multiplying the number of students in each single course program by the number of months of that single course program in the relevant period and then adding the resulting numbers for all of our single course programs together to reach an aggregate single course student-months figure for the period.

A number of factors affect our degree major, single course and pre-occupational training student-months, as follows:

Our ability to add schools that offer our course programs;

Our ability to add new course programs to existing educational institution clients; and

Our ability to secure rights from IT vendors for curriculum and test content.

Test Preparation and Training Solutions

We derive test preparation and training solutions revenues from the sale of training software products and online test preparation and training services. We historically also generated some revenues from sales of software to schools to conduct computer-based exercises and tests.

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 Securities Association of China, the China Futures Association and the China Banking Association. Revenues from online test preparation and training services are generated by selling online membership to end users directly or through distributors on a consignment basis. The online membership entitles the end users the access to online test preparation and training services during a specified service period, which normally ranges between 90 to 180 days from the activation of the membership account. Revenue of online membership is recognized on a straight-line basis ratably over the service period commencing at the point of time the membership account is activated. If the membership accounts sold to the end users are not activated before the expiration date, related online service revenue is recognized on the expiration date. For the membership accounts granted with fixed online hours, we compare the revenue recognized to the actual completion status by account, and make any revenue adjustments to reflect the actual completion status.

Training software products. We offer our training software products through independent sales agents. In the fiscal year ended March 31, 2008, substantially all of our training software products revenue derived from the sales of NTET Tutorial Platform software, which comprises a comprehensive set of training materials for preparing teachers for certification under the NTET test. We began offering our NTET Tutorial Platform in November 2006. We sell all title and distribution rights to the distributor upon delivery. We do not provide upgrades or any additional post-contract services, which are the responsibility of the sales agents who sell or otherwise dispose of our NTET Tutorial Platform. We recognize this revenue upon delivery of the software and once collectability is reasonably assured. We believe demand for test preparation and training solutions are generally highest close to test and certification requirement deadlines, which are typically during the quarter ending December 31. Therefore, we generally expect revenues from test preparation and training solutions to be the highest in the quarter ending December 31. We suspended offering our NTET Tutorial Platform in October 2008 as a result of a delay in the timing of the teachers certification testing requirement deadline.

Significant Factors Affecting Test Preparation and Training Solutions

A number of factors affect our revenues from test preparation and training solutions. One of the most important of these is our ability to grow the number of test titles we deliver through our test delivery platform. Because we only offer test preparation and training solutions for tests that are delivered through our test delivery

platform, the number of test titles we deliver through our test delivery platform directly impacts the potential number of tests for which we can offer test preparation and training solutions. However, the demand for test preparation and training solutions is not the same for all tests. 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. 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. Sales of some of our test preparation products also depend on government budgets available for procuring these products. For example, sales of our NTET preparation software depend to a significant degree on government budgets for procuring software for schools to have their teachers prepare for the national teachers qualification exam, which in turn depends on the deadline for obtaining such qualification. Due to a delay in this deadline, related budgets have been reduced since calendar year 2008. Governmental budgets may vary year to year for a number of reasons, which can affect sales of these products.

In addition, our revenues from existing test preparation and training solutions depend on the number of users of our test preparation and training solutions and the price we can charge for them. These in turn depend on a number of factors, including whether test takers are aware of our test preparation and training solutions and the timing of the test being delivered. We market our current test preparation and training solutions through either distributors or the test sponsor and the number of test preparation and training solutions users depends on the effectiveness of these marketing channels.

Other Revenue

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

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. Although we generate a small but steady stream of licensing revenue from test center operators, we view our network of ATA authorized test centers primarily as a channel for the nationwide delivery of our tests, which is an important consideration for many of our test sponsor clients, as well as a means to build our brand by placing ATA signage in our numerous test centers across China. We do not provide loan guarantees, asset pledges or any other financial support to the ATA authorized test centers.

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. Under either fee arrangement, our licensees can extend their licensing agreement with us indefinitely. We recognize revenue from initial license fees on a straight-line basis over the expected licensing period, which currently is ten years. We recognize revenue from annual license fees once collectability is reasonably assured, which has generally been once we receive cash payment, over the remaining months of the year to which the annual license fees relate.

Certificates. 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.

Other fees and services. From time to time and as requested by our clients, we may provide test content creation services, teacher training services, IT consulting and system integration 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, for which we recognize revenue upon receiving cash.

Cost of Revenues

Our cost of revenues consists primarily of test delivery monitoring costs, royalty fees, payroll compensation, and the cost of inventory sold, all of which are directly attributable to the provision of our testing services, test-based educational 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,						
	2007		2008		2009		
	RMB	%	RMB	%	RMB	US$	%
	(in thousands, except for percentages)						
Net Revenue	84,881	100.0%	172,088	100.0%	217,545	31,838	100.0%
Cost of revenues	41,102	48.4%	66,947	38.9%	92,608	13,553	42.6%
Gross Profit	43,779	51.6%	105,141	61.1%	124,937	18,285	57.4%

Test Delivery Monitoring Costs

Test delivery monitoring costs consist of fees paid to hire test proctors, rental of testing facilities and 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. 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. Under limited circumstances, an IT vendor may also charge an annual royalty cost regardless of the number of students enrolled in, or that take the final test for, 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 Sold

Cost of inventory sold is comprised of printed learning material that are pre-printed by third parties and that we record as inventory. 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. 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. Degree major and single course program licensing fees are subject to mutual negotiation between us and the content providers.

Our gross margin is also affected by the mix of our service offerings. For example, the introduction of test preparation and training solutions such as our NTET Tutorial Platform and ATA Online s online test preparation services in November 2006, which both involve relatively low direct costs of service, contributed to our higher gross margin in the fiscal year ended March 31, 2008. In the fiscal year ended March 31, 2009, NTET sales decreased significantly due to cuts in relevant government budgets, which negatively affected our gross margin in that fiscal year.

Operating Expenses

Our operating expenses consist of general and administrative expenses, sales and marketing expenses and research and development expenses.

General and Administrative Expenses

Our general and administrative expenses consist primarily of salaries and benefits for our administrative and finance personnel, professional fees, office expenses, rental costs, provisions for uncollectible accounts receivable, travel expenses, and share-based compensation expenses.

Sales and Marketing Expenses

Our sales and marketing expenses consist primarily of share-based compensation expenses, sales agency fees, cost of hosting conferences, advertising expenses, travel and entertainment expenses, salaries and benefits for our sales and marketing personnel, 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.

Taxation

Cayman Islands & British Virgin Islands

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

China

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

Enterprise Income Tax. Prior to January 1, 2008, the effective date of the New EIT Law, both domestic and foreign-invested enterprises were generally subject to an enterprise income tax rate of 33% in the PRC under the relevant tax laws. Prior to January 1, 2008, our subsidiaries incorporated in China, ATA Testing and ATA Learning, were governed by the PRC Enterprise Income Tax Law for Foreign-Invested Enterprises and Foreign Enterprises. Our consolidated VIE ATA Online was subject to the PRC Enterprise Income Tax Provisional Regulations. However, qualified high-and-new technology enterprises incorporated and operated in high-and-new technology development zones designated by the State Council might enjoy a reduced enterprise income tax rate of 15%. As a high-and-new technology enterprise incorporated in the Beijing High-Tech Development Experimental Zone, which was a designated high-and-new technology development zone, each of ATA Testing, ATA Learning and ATA Online was entitled to a preferential-enterprise income tax rate of 15%. In addition, under the old high-and-new technology regime, ATA Learning was entitled to income tax exemption during the three years from 2003 through 2005, and a 50% reduction of income tax during the subsequent three years from calendar years 2006 through 2008, and ATA Online was entitled to an enterprise income tax exemption for calendar years 2007, 2008 and 2009, and a 50% reduction of income tax rate during the subsequent three years from calendar years 2010 through 2012.

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. However, under the New EIT Law, enterprises that were established before March 16, 2007 and already enjoy preferential tax treatments will 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 advanced-and-new technology enterprises eligible for key support from the State (ANTE) are entitled to a preferential tax rate of 15%. In January 2009, ATA Testing successfully obtained its ANTE certificate under the New EIT Law and new high-tech regime and is therefore recognized as an ANTE and qualified for a preferential tax rate of 15%. As a result, ATA Testing will continue to enjoy a preferential enterprise income tax rate of 15%. 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.

During calendar year 2008, ATA Learning and ATA Online did not apply for the ANTE status under the New EIT Law and new high-tech regime; in addition, they did not file any record to the competent tax authorities based on the Notice of Beijing State Administration of Taxation on Further Enhancing the Administration of Enterprise Income Tax Reduction/Remission (Jingguoshuifa [2009] No.47) (Circular47). Based on further communications with the tax authorities, ATA Learning and ATA Online are not allowed by the PRC tax authorities to enjoy the transitional preferential tax treatment under the New EIT Law before they are re-qualified as ANTE and therefore are subject to a 25% enterprise income tax rate starting from calendar year 2008.

Beijing JDX was established on November 5, 2002 as a domestic enterprise. It obtained Hai Guo Shui Jian Mian (2003) No. 03779 approval for a 3 plus 3 tax holiday (three-year full income tax exemption from 2003 to 2005 and a further 50% reduction of the Income Tax from 2006 to 2008). BJ JDX obtained a high-and-new technology enterprise status on December 6, 2006 and was granted a preferential EIT rate of 15%. However, BJ JDX did not qualify as an ANTE during calendar year 2008 under the New EIT Law and it is not allowed by the PRC tax authorities to enjoy the transitional preferential tax treatment under the New EIT Law before they are re-qualified as ANTE and therefore the applicable EIT rate for BJ JDX for calendar year 2008 and subsequent calendar years is 25%.

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, 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 a PRC resident enterprise. However, if we were considered a PRC resident enterprise, 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 and the Implementation Rules provide that a withholding tax of 10% (or other applicable withholding tax rates based on tax treaties between the PRC and other jurisdictions) will generally be applicable to dividends payable to foreign investors, and, unlike the prior tax law, does not specifically exempt corporations that pay dividends from withholding all or part of such income tax when they pay dividends to their foreign investors. To the extent we are not considered as a PRC resident enterprise, the dividends our PRC subsidiary pays 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 10% withholding tax rate can be further reduced based on the tax arrangement/tax treaty between China and the other respective jurisdiction. The undistributed earnings generated before January 1, 2008 shall be exempted from withholding tax when such earnings are distributed to the foreign investor in the year 2008 or thereafter. As of

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March 31, 2009, we have not provided for income taxes on accumulated earnings of RMB19.8 million ($2.9 million) generated by its PRC consolidated entities since January 1, 2008 as we planned to indefinitely reinvest these earnings in the PRC. As of March 31, 2009, the unrecognized deferred income tax liability related to these earnings was RMB2.0 million ($0.3 million).

Under applicable Chinese tax laws, foreign-invested enterprises and domestic Chinese companies may carry forward tax losses up to five years. As a result of accumulated tax losses by our PRC subsidiaries and our affiliated PRC entity, as of March 31, 2009, we had RMB7.0 million ($1.0 million) in tax gross loss carryforwards that could be used to offset taxable income in future tax years.

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 a refund of value-added tax paid at a rate of 14% of the sale value of some of our software products. ATA Testing ATA Learning and Beijing JDX are also subject to value added tax at a rate ranging from 3% to 17%.

Business Tax. ATA Testing, ATA Learning, ATA Online, ATA Wuxi 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 in China 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.

Revenue Recognition

Critical determinations made in connection with our revenue recognition policies are set forth below.

Determination of applicability of VSOE. In determining our revenue recognition model for license fees from educational institutions, we have concluded, based on our past experience with our educational institution clients and our anticipated service model, that vendor specific objective evidence, or VSOE, does not exist for the post-contract services, or PCS, and other services provided in the degree major and single course programs, which are the only undelivered elements subsequent to the beginning of the programs. If the licensing and service arrangements with schools change from our current model to such where significant evidence for VSOE does exist for the PCS and services provided then we may no longer recognize revenue from educational institutions ratably over the service period on a straight-line basis. In such a case, we may instead recognize revenue on a relative fair value basis.

Recognition of NTET Tutorial Platform Software sales. In the fiscal year ended March 31, 2007, revenue for NTET Tutorial Platform Software was recognized on a cash basis since our ability to collect such revenue was not reasonably assured. Based on our experience accumulated in the fiscal years ended March 31, 2008 and 2009, we believe that we are reasonably assured of collecting the revenue for NTET Tutorial Platform Software. Our NTET Tutorial Platform Software revenue is recognized upon delivery and when we are reasonably assured of collecting such revenue.

Bad Debt Allownce

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, 2007, 2008 and 2009 is as follows:

	Year Ended March 31,			
	2007	2008	2009	
	RMB	RMB	RMB	US$
Beginning allowance for doubtful accounts	1,940,422	2,440,151	623,993	91,322
Additions charged to bad debt expense	499,729	1,655,412	6,531,940	955,954
Write-off of accounts receivable		(3,471,570)	(3,956,973)	(579,106)
Ending allowance for doubtful accounts	**2,440,151**	**623,993**	**3,198,960**	**468,170**

The increase in our estimate of doubtful accounts pertains primarily to our test-based education services as some schools have declined to pay for previously provided services after their relationship with us terminated, and also a provision of RMB3.3 million pertaining to an advance payment to a third party pursuant to a 2005 business cooperation arrangement that has been terminated.

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. We have no intangible assets with indefinite useful lives. As of March 31, 2009, our intangible assets consisted of Beijing JDX and JDX BVI related testing service technology and customer relationships .. 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.

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 new for the 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 replacement cost new, a depreciation factor of 50% was applied to the technological replacement cost new 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 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.

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Income Taxes

We assess the likelihood that our net deferred income tax assets will be realized from future taxable income. 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 need for a valuation allowance, we consider all available evidence, including projected future taxable income, reversal of temporary differences, tax planning strategies, historical taxable income (losses), and the expiration period of the tax loss carryforwards.

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 carryforwards are utilized. We consider the scheduled reversal of deferred tax liability, projected future taxable income and tax planning strategies in making this assessment.

As of March 31, 2009, deferred tax asset recognized for tax loss carryforwards of Beijing JDX amounted to RMB1.4 million ($0.2 million). These tax loss carryforwards would gradually expire in the years from 2012 to 2014. Since it is considered more likely than not that the deferred tax assets recognized from tax loss carry forwards of Beijing JDX may not be realized, a valuation allowance has been provided to reduce the amount of deferred tax assets after considering the scheduled reversal of deferred income tax liabilities..

We concluded that ATA Online s deferred income tax assets as of March 31, 2009 were RMB0.66 million ($0.1 million). Based on projections for future taxable income over the periods in which the deferred income tax assets are deductible or can be utilized, we believe it is more likely than not that we will realize the tax benefits. The amount of the deferred income tax assets considered realizable as of March 31, 2009 could be reduced in the near term if estimates of future taxable income are reduced.

As of April 1, 2007 and for each of the twelve months ended March 31, 2008 and March 31, 2009, 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. No interest or penalties related to unrecognized tax benefits have been accrued as of April 1, 2007 and as of March 31, 2008 and 2009.

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. Accordingly, the income tax returns of our PRC consolidated entities are subject to examination by the relevant tax authorities for the calendar tax years beginning in 2004.

Share-Based Compensation to Employees

As further described in Note 13 to our Consolidated Financial Statements, we have elected to adopt the Statement of Financial Accounting Standards No. 123R, Share-Based Payment, or SFAS 123R. Under SFAS 123R, the cost of all share-based payment transactions are recognized in our consolidated financial statements based on their grant-date fair value over the required 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. 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.

The determination of fair value of equity awards such as options requires making complex and subjective judgments about the projected financial and operating results of the subject company. It also requires making certain assumptions relating to cost of capital, general market and macroeconomic conditions, industry trends, comparable companies, share price volatility of the subject company, expected lives of options and discount rates. These assumptions are inherently uncertain. Changes in these assumptions could significantly affect the amount of employee share-based compensation expense we recognize in our consolidated financial statements.

We determined the estimated fair value of our employees share options granted in April 2005, December 2005, May 2006, December 2006, October 2007, January 2008 based on retrospective valuations conducted by Jones Lang LaSalle Sallmanns Limited, an independent third-party valuation firm. In determining the per share value of our common shares for purposes of determining the fair value of the options, we considered the guidance prescribed by the AICPA Audit and Accounting Practice Aid Valuation of Privately-Held-Company Equity Securities Issued as Compensation, or Practice Aid. Specifically, paragraph 16 of the Practice Aid sets forth the preferred types of valuation that should be used. The fair value of our common shares was determined in a two-step process. In the first step, the equity value of our company was determined based on a valuation performed by Jones Lang LaSalle Sallmanns Limited. Jones Lang LaSalle Sallmanns Limited considered both the market approach and income approach to arrive at the fair value of our equity value. Jones Lang LaSalle Sallmanns Limited considered the market approach in the form of guideline company method and in the context of an equity transaction with unrelated third parties in exchange for cash consideration. Due to lack of general consistency in the guideline companies valuation ratios, Jones Lang LaSalle Sallmanns Limited did not apply any weight to the guideline company to arrive at the fair value of our equity. In accordance with the Practice Aid, because we had an equity transaction in March 2005 with an unrelated party in consideration for cash, we believed this equity transaction established a reference to determine a fair value of our equity value for option grants proximate to this transaction. Therefore, for the valuation of options granted in April 2005, December 2005 and May 2006, which were in the 12-month proximity with the March 2005 transaction, income approach (discounted cash flow method) was used with the discount rate referencing the recent equity transaction to arrive at the value of our equity value for these respective grants. For option grants after May 2006, without available reference of an equity transaction, income approach served as the method to determine our equity value. For the October 2007 grant, the fair value of the 391,800 stock options granted was determined by using the binomial option-pricing model with an estimated fair market value of underlying shares of $5.90 (the mid-point of our estimated range of the initial public offering price in February 2008 after a discount of 9.16% to account for inherent business risk and lack of marketability). The estimated fair value of options granted on January 28, 2008 was determined by using the binomial option-pricing model with an estimated fair market value of underlying shares as the IPO price. For the July 2008 and February 2009 grants, the fair value was determined by using the binomial option-pricing model with the fair market value at the date of grant.

For the income approach, Jones Lang LaSalle Sallmanns Limited utilized a discounted cash flow method based on our projected cash flows from 2006 through 2011, including the following factors:

- analysis of our industry and comparable listed companies;
- our business and future development plan which includes estimated revenue volume and average unit price;
- our historical financial results;
- our projections of gross margins, earnings before income tax margin, capital expenditures and working capital changes from 2006 through 2011; and
- appropriate discount rate to bring the projected future net cash flows available for payment of shareholders interest to their present worth.

Jones Lang LaSalle Sallmanns Limited used a weighted average cost of capital, or WACC, of 11.68% as the discount rate to determine the enterprise value in May 2006, which was near a 12-month proximity to an equity transaction with unrelated third parties in exchange for cash consideration. The near-term equity transaction established a fair value basis for us and an implied discount rate of 11.68% in the transaction was resolved to reflect expectations of free cash flows at that point of time. We believe that such discount rate represented the fair

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value risk perception of the unrelated investors. Our operations had not undergone major changes from the near-term equity transaction to May 2006 and therefore the same discount rate was applied in the May 2006 valuation. Jones Lang LaSalle Sallmanns Limited used a discount rate of 16% to determine the enterprise value of our company in December 2006. There were no equity transactions objectively establishing our discount rate near a 12-month proximity of this issuance and the discount rate was derived using the WACC formula.

In the second step, since our capital structure comprised a warrant, preferred shares and common shares at the grant date, Jones Lang LaSalle Sallmanns Limited allocated our equity value between each class of equity securities using the option pricing method. The option pricing method treats the warrant, common shares and preferred shares as call options on our company s equity value, with exercise prices based on the warrant s exercise price and liquidation preference of the preferred shares. We determined the fair value of the options on the date of grant by using the binomial option pricing method under the following assumptions.

	Year Ended March 31,		
	2007	**2008**	**2009**
Expected weighted average volatility	56%	52%	73%
Expected weighted average dividends			
Suboptimal exercise factor	2.0x	2.0x	2.0x
Weighted average risk-free interest rate (per annum)	4.83%	3.80%	3.53%
Estimated weighted average fair value at grant date of underlying common shares (per share)	$ 1.36	$ 4.98	$ 4.79

For options granted prior to January 28, 2008, because we do not have an internal market for its shares, the expected volatility of our future common share price was based on the historical price volatility of the common shares of comparable publicly traded training and testing services companies operating in the United States. Since the share options, once exercised, will primarily trade in the United States and there was no comparable PRC zero coupon rate, 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.

We had 3,235,468 employee share options outstanding, including 2,591,627 immediately exercisable employee share options, as of March 31, 2009. The following table sets out information regarding our outstanding employee share options as of March 31, 2009:

Options outstanding as of March 31, 2009			**Options exercisable as of March 31, 2009**		
Number of Shares	Exercise Price per Share USD	Remaining Contractual Life	Number of Shares	Exercise Price per Share USD	Remaining Contractual Life
1,312,600	2.263	6.0 years	1,303,188	2.263	6.0 years
773,000	3.600	6.7 years	628,063	3.600	6.7 years
330,400	3.600	7.2 years	240,917	3.600	7.2 years
250,000	3.600	7.7 years	151,042	3.600	7.7 years
382,800	3.600	8.5 years	239,250	3.600	8.5 years
100,000	4.750	8.8 years	29,167	4.750	8.8 years
50,000	6.315	9.3 years		6.315	9.3 years
23,333	2.685	9.9 years		2.685	9.9 years
13,335	2.685	9.9 years		2.685	9.9 years
3,235,468	3.125	6.9 years	2,591,627	2.941	6.6 years

For our share options issued in 2007, 2008 and 2009, we used an expected volatility that ranged from 51% to 83% and estimated fair values for our common shares that ranged from $1.14 to $6.33 per share. The weighted-average grant-date fair value of options granted during the years ended March 31, 2007, 2008 and 2009 was $0.538 (RMB3.676), $3.165 (RMB21.626) and $2.748 (RMB18.777) per share, respectively. We recorded non-cash share-based compensation expenses of RMB2.5 million, RMB7.3 million and RMB5.2 million ($0.8 million) in the fiscal years ended March 31, 2007, 2008 and 2009, respectively. As of March 31, 2009, there were

RMB2.8 million of total unrecognized compensation costs related to non-vested share options. These costs are expected to be recognized over the next four years.

Changes in our estimates and assumptions regarding the expected volatility of our common shares could significantly impact the estimated fair values of our share options determined under the binomial valuation model and, as a result, our net earnings and the net earnings applicable to our common shareholders.

On February 12, 2009, 274,000 restricted shares (which are referred to in the Consolidated Financial Statements and accompanying Notes as nonvested shares per SFAS 123R) were granted to employees and officers under the 2008 Plan. Share-based compensation expense with respect to the restricted shares was measured based on the fair value of the Company s common shares at the date of grant of USD1.995 (RMB13.63).

We had 269,000 restricted shares outstanding, name of which were vested, as of March 31, 2009.

We recorded non-cash share-based compensation expenses of RMB Nil, RMB Nil and RMB0.4 million ($52,671) for the restricted shares in the fiscal years ended March 31, 2007, 2008 and 2009, respectively. As of March 31, 2009, there was RMB3.3 million ($0.5 million) of total unrecognized compensation expense related to restricted shares, which is expected to be recognized over the next 4 years.

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.

	For the fiscal year Ended March 31,						
	2007		2008		2009		
	RMB	%	RMB	%	RMB	US$	%
	(In thousands, except for percentages and per share data)						
Net revenues:							
Testing services	24,628	29.0%	78,198	45.4%	137,046	20,057	63.0%
Test-based educational services	42,804	50.4%	48,595	28.2%	42,546	6,227	19.6%
Test preparation and training solutions	10,076	11.9%	36,908	21.5%	25,071	3,669	11.5%
Other	7,373	8.7%	8,387	4.9%	12,882	1,885	5.9%
Total net revenues	**84,881**	**100.0%**	**172,088**	**100.0%**	**217,545**	**31,838**	**100.0%**
Cost of revenues	41,102	48.4%	66,947	38.9%	92,608	13,553	42.6%
Gross profit	**43,779**	**51.6%**	**105,141**	**61.1%**	**124,937**	**18,285**	**57.4%**

	For the fiscal year Ended March 31,						
	2007		2008		2009		
	RMB	%	RMB	%	RMB	US$	%
Operating expenses:							
Research and development	9,322	11.0%	12,882	7.5%	16,241	2,377	7.5%
Sales and marketing	22,029	26.0%	28,805	16.7%	24,922	3,647	11.5%
General and administrative	32,024	37.7%	40,026	23.3%	57,386	8,399	26.3%

Total operating expenses	63,375	74.7%	81,713	47.5%	98,549	14,423	45.3%

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	For the fiscal year Ended March 31,						
	2007		2008		2009		
	RMB	%	RMB	%	RMB	US$	%
(Loss) income from operations	**(19,596)**	**(23.1%)**	**23,428**	**13.6%**	**26,388**	**3,862**	**12.1%**
Equity in net losses of affiliates	(187)	(0.2%)					
Gain from sale of an affiliate			2,837	1.6%			
Gain from liquidation of an affiliate	1,509	1.8%	988	0.6%			
Interest income	600	0.7%	474	0.3%	395	58	0.2%
Interest expense							
Subsidy income					2,000	292	0.9%
Foreign currency exchange losses, net	(909)	(1.1%)	(236)	(0.1%)	665	97	0.3%
(Losses) earnings before income tax	(18,583)	(21.9%)	27,491	16.0%	29,448	4,309	13.5%
Income tax benefit (expense)	1,793	2.1%	(7,321)	(4.3%)	(6,638)	(971)	(3.0%)
Net (loss) income	**(16,790)**	**(19.8%)**	**20,170**	**11.7%**	**22,810**	**3,338**	**10.5%**
Net (loss) income (applicable) available to common shareholders	**(16,790)**		**20,170**		**22,810**	**3,338**	

	For the fiscal year Ended March 31,			
	2007	2008	2009	
	RMB	RMB	RMB	US$
Basic (Loss) earnings per common share	(0.82)	0.79	0.50	0.07
Diluted (Loss) earnings per common share	(0.82)	0.53	0.49	0.07

Fiscal Year Ended March 31, 2009 Compared to Fiscal Year Ended March 31, 2008

Net Revenues

Our total net revenues increased by RMB45.4 million, or 26.4%, to RMB217.5 million ($31.8 million) in the fiscal year ended March 31, 2009 from RMB172.1 million in the fiscal year ended March 31, 2008, primarily as a result of increases in revenues from our testing services.

Testing services. Testing services revenues increased by RMB58.8 million, or 75.2% to RMB137.0 million ($20.1 million) in the fiscal year ended March 31, 2009 from RMB78.2 million in the fiscal year ended March 31, 2008. This increase was primarily driven by test delivery revenues, which increased by RMB58.6 million, or 76.2%, to RMB135.5 million ($19.9 million) in the fiscal year ended March 31, 2009 from RMB76.9 million in the fiscal year ended March 31, 2008. The total number of tests delivered, which affects our testing services revenues, increased to 5,063,379 in the fiscal year ended March 31, 2009 from 3,632,285 in the fiscal year ended March 31, 2008. Our average revenue per test delivered also increased to RMB27.1 ($3.9) in the fiscal year ended March 31, 2009 from RMB21.5 in the fiscal year ended March 31, 2008. This increase in both the average revenue per test and the number of tests delivered was due, in part, to a significant increase in the number of finance industry-related tests delivered, which tests also have a relatively high revenue per test. Although the global financial crisis affected the overall Chinese economy in the second half of calendar year 2008 through the first half of calendar year 2009, we did not experience declines in our testing services attributable to the crisis. Our net revenues from testing services provided to the China Banking Association, the Securities Association of China and the China Futures Association grew to an aggregate of RMB108.9 million ($16.0 million) in the fiscal year ended March 31, 2009 from RMB55.9 million in the fiscal year ended March 31, 2008. The number of tests delivered for these three clients increased to 2.4 million in the fiscal year ended March 31, 2009 from 1.1 million in the fiscal year ended March 31, 2008. We expect growth from testing services revenues to continue to increase, driven significantly by increases in the volume of finance industry-related tests and the introduction of new test titles for the finance industry and other clients.

Test-based educational services. Revenues from test-based educational services decreased by RMB6.1 million, or 12.6%, to RMB42.5 million ($6.2 million) in the fiscal year ended March 31, 2009 from RMB48.6 million in the fiscal year ended March 31, 2008. Degree major course program revenues decreased RMB5.0 million, or 13.7%, to RMB31.5 million ($4.6 million) in the fiscal year ended March 31, 2009 from RMB36.5 million in the fiscal year ended March 31, 2008. We experienced a decrease of 20.0% in the number of student-months for degree major course programs to 0.4 million in the fiscal year ended March 31, 2009 from 0.5 million in the fiscal year ended March 31, 2008, while the effective average price of our Degree programs increased by 11.3% to RMB89 ($13.0) in the fiscal year ended March 31, 2009 from RMB80 in the fiscal year ended March 31, 2008. The decrease in the degree major student-months was due primarily to a decreasing number of new enrolling students and an increasing number of students graduating from our existing degree major course programs not being fully offset by new student intake into the programs. Single course program revenues decreased to RMB4.6 million ($0.7 million) in the fiscal year ended March 31, 2009 from RMB9.4 million in the fiscal year ended March 31, 2008. The number of single course student-months decreased 47.0% to 98,656 in the fiscal year ended March 31, 2009 from 185,984 in the fiscal year ended March 31, 2008, while the average price per student-month of our single course programs increased by 71.4% to RMB72 from RMB42 during the same period. Pre-occupational training program revenues increased by RMB0.9 million, or 33.3%, to RMB3.6 million ($0.5 million) in the fiscal year ended March 31, 2009 from RMB2.7 million in the fiscal year ended March 31, 2008 as a result of an increase in the number of students participating in these programs. We expect revenues from our test-based education services to continue to decline. Since December 2008, we have redirected most of our sales and marketing efforts from our test-based education services towards our newly developed testing services such as HR Select and TOEIC where we believe there is greater market opportunity.

Test preparation and training solutions. Our revenues from test preparation and training solutions decreased to RMB25.1 million ($3.7 million) in the fiscal year ended March 31, 2009 from RMB36.9 million in the fiscal year ended March 31, 2008, primarily as a result of decreases in the sales of our NTET Tutorial Platform. Sales of our NTET Tutorial Platform decreased by RMB15.7 million, or 49.4%, to RMB16.1 million ($2.4 million) in the fiscal year ended March 31, 2009 from RMB31.8 million in the fiscal year ended March 31, 2008 due to lower approved budgets by relevant governmental agencies for procuring this software as the deadline for the national NTET test has been deferred. As of March 31, 2009, we had accounts receivable aged over one year of RMB8,621,730 from sales of NTET Tutorial Platform software, which we expect to collect during fiscal year 2010. Revenues from our online test preparation services for finance industry-related tests increased by RMB3.9 million, or 76.5%, to RMB9.0 million ($1.3 million) in the fiscal year ended March 31, 2009 from RMB5.1 million in the fiscal year ended March 31, 2008. We expect our online test preparation services revenues to increase as increasing numbers of banking and securities industry professionals and test takers use our online services to prepare for their licensure tests or to satisfy their continuous professional training requirements as required by industry rules.

Other revenues. Other revenues increased by RMB4.5 million, or 53.6%, to RMB12.9 million ($1.9 million) in the fiscal year ended March 31, 2009 from RMB8.4 million in the fiscal year ended March 31, 2008, primarily due to an increase in revenues from ancillary test services.

Gross Profit

Our gross profit increased by RMB19.8 million to RMB124.9 million ($18.3 million) in the fiscal year ended March 31, 2009 from RMB105.1 million in the fiscal year ended March 31, 2008. Our gross margin decreased to 57.4% in the fiscal year ended March 31, 2009 from 61.1% in the fiscal year ended March 31, 2008. The decrease in our gross margin was primarily due to the decrease in revenues from higher gross margin NTET sales.

Operating Expenses

Our operating expenses increased by RMB16.8 million, or 20.6%, to RMB98.5 million ($14.4 million) in the fiscal year ended March 31, 2009 from RMB81.7 million in the fiscal year ended March 31, 2008.

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General and administrative expenses. Our general and administrative expenses increased by RMB17.4 million, or 43.5%, to RMB57.4 million ($8.4 million) in the fiscal year ended March 31, 2009 from RMB40.0 million in the fiscal year ended March 31, 2008. Bad debt expenses increased by RMB8.1 million, or 493.8%, to 9.8 million ($1.4 million) in the fiscal year ended March 31, 2009, from RMB1.7 million in the fiscal year ended March 31, 2008, primarily relating to our test-based education services as some schools have declined to pay for previously provided services after their relationship with us terminated, and a provision of RMB3.3 million pertaining to an advance payment to a third party pursuant to a 2005 business cooperation arrangement that has been terminated. Salaries and compensation expenses increased by RMB4.6 million, or 36.5%, to RMB17.2 million ($2.5 million) in the fiscal year ended March 31, 2009, from RMB12.6 million in the fiscal year ended March 31, 2008, primarily due to the expansion of the management team. Professional services expenses increased by RMB6.1 million, or 53.0%, to RMB17.6 million ($2.6 million) in the fiscal year ended March 31, 2009 from RMB11.5 million in the fiscal year ended March 31, 2008, mainly due to incremental expenses related to maintaining compliance as a public company. Our general and administrative expenses were offset by a rebate of RMB2.9 million ($0.4 million) from Citibank N.A., our depositary, for proceeds related to the administration of ADRs.

Sales and marketing expenses. Our sales and marketing expenses decreased by RMB3.9 million, or 13.5%, to RMB24.9 million ($3.6 million) in the fiscal year ended March 31, 2009 from RMB28.8 million in the fiscal year ended March 31, 2008. Sales and marketing expenses as a percentage of our total net revenues decreased to 11.5% in the fiscal year ended March 31, 2009 from 16.7% in the fiscal year ended March 31, 2008. This decrease was primarily related to a decrease in our expenses on business development activities for test-based educational services. We expect that our sales and marketing expenses will increase in the near term as we increase our incentive pay to our sales team, increase our sales efforts, hire additional sales personnel and initiate additional marketing programs to grow our HR Select and TOEIC testing services.

Research and development expenses. Our research and development expenses increased by RMB3.3 million, or 25.6%, to RMB16.2 million ($2.4 million) in the fiscal year ended March 31, 2009 from RMB12.9 million in the fiscal year ended March 31, 2008. This increase was due primarily to increases in costs related to development of our new HR Select, TOEIC and Cambridge ESOL Young Learners English service offerings.

Interest Income

Our interest income was RMB0.4 million ($57,824) in the fiscal year ended March 31, 2009 and RMB0.5 million in the fiscal year ended March 31, 2008. Our interest income was slightly lower in the fiscal year ended March 31, 2009 because of changes in relevant interest rates on deposits.

Subsidy Income

Our subsidy income of RMB2.0 million ($292,701) in the fiscal year ended March 31, 2009 is a refund from the local government where ATA Testing has its registered address, as it has a practice of rewarding local companies that successfully list shares on overseas stock markets.

Foreign Currency Exchange Benefit (Losses), Net

Our net foreign currency exchange results improved and resulted in a net gain of RMB0.7 million ($97,405) in the fiscal year ended March 31, 2009, compared with a net loss of RMB0.2 million in the fiscal year ended March 31, 2008, primarily due to the effects of appreciation of the Renminbi against the U.S. dollar in relation to a U.S. dollar loan made from ATA BVI to ATA Learning.

Income Tax Expense

We had income tax expense of RMB6.6 million ($1.0 million) in the fiscal year ended March 31, 2009, compared to RMB7.3 million in the fiscal year ended March 31, 2008. Our effective tax rate decreased from 26.6% in the fiscal year ended March 31, 2008 to 22.5% in the fiscal year ended March 31, 2009, mainly due to an incentive, which was not in effect for the previous fiscal year, of the local tax authority to encourage research and development where research and development expenses are deductible at a higher amount than actual booked expenses, and through which we had an additional deduction for research and development activities in the amount of RMB6.1million ($0.9 million) in the fiscal year ended March 31, 2009.

Net Income

As a result of the above factors, we had net income of RMB22.8 million ($3.3 million) in the fiscal year ended March 31, 2009 compared to RMB20.2 million in the fiscal year ended March 31, 2008.

Our basic earnings per common share were RMB0.79 and RMB0.50 ($0.07) in the fiscal years ended March 31, 2008 and 2009, respectively. Our diluted earnings per common share were RMB0.53 and RMB0.49 ($0.07) in the fiscal years ended March 31, 2008 and 2009, respectively. The Company s dilutive common equivalent shares in the fiscal years ended March 31, 2008 and 2009 consisted of 2,062,324 and 1,027,986 common shares issuable upon exercise of outstanding share options and restricted shares, respectively (using the treasury stock method), 481,125 and 27,524 common shares issuable upon exercise of warrants, respectively (using the treasury stock method), and 9,775,462 and nil common shares issuable upon the conversion of the convertible preferred shares, respectively (using the as-converted method).

Fiscal Year Ended March 31, 2008 Compared to Fiscal Year Ended March 31, 2007

Net Revenues

Our total net revenues increased by RMB87.2 million, or 102.7%, to RMB172.1 million in the fiscal year ended March 31, 2008 from RMB84.9 million in the fiscal year ended March 31, 2007, primarily as a result of increases in revenues from our testing services and significant sales of our test preparation and training solutions.

Testing services. Testing services revenues increased by RMB53.6 million, or 217.5%, to RMB78.2 million in the fiscal year ended March 31, 2008 from RMB24.6 million in the fiscal year ended March 31, 2007. This increase was primarily driven by test delivery revenue, which increased by RMB53.5 million, or 229.2%, to RMB76.9 million in the fiscal year ended March 31, 2008 from RMB23.4 million in the fiscal year ended March 31, 2007. The total number of tests delivered, which affects our testing services revenue, increased to 3,632,285 in the fiscal year ended March 31, 2008 from 3,335,701 in the fiscal year ended March 31, 2007. Our average revenue per test delivered also increased to RMB21.5 in the fiscal year ended March 31, 2008 from RMB7.0 in the fiscal year ended March 31, 2007. This increase in both the average revenue per test and the number of tests delivered was due, in part, to a significant increase in the number of finance industry-related tests delivered, which tests also have a higher than average revenue per test.

Test-based educational services. Revenues from *test*-based educational services increased by RMB5.8 million, or 13.5%, to RMB48.6 million in the fiscal year ended March 31, 2008 from RMB42.8 million in the fiscal year ended March 31, 2007. This increase was driven by increases in revenues from single course programs and pre-occupational training programs. Single course program revenue increased RMB3.7 million, or 64.3%, to RMB9.4 million in the fiscal year ended March 31, 2008 from RMB5.7 million in the fiscal year ended March 31, 2007. We experienced an increase of 39.2% in the number of student-months for single course programs to 185,984 in the fiscal year ended March 31, 2008 from 133,562 in the fiscal year ended March 31, 2007, while the effective average price of our single course programs decreased by 1.2% to RMB42 in the fiscal year ended March 31, 2008 from RMB43 in the fiscal year ended March 31, 2007. Pre-occupational training program revenues increased to RMB2.7 million in the fiscal year ended March 31, 2008 from RMB1.1 million in the fiscal year ended March 31, 2007 as a result of an increase in the number of students participating in these programs. Degree major course program revenues increased by RMB0.5 million, or 1.3%, to RMB36.5 million in the fiscal year ended March 31, 2008 from RMB36.0 million in the fiscal year ended March 31, 2007. The number of degree major student-months decreased 1.7% to 457,836 in the fiscal year ended March 31, 2008 from 465,856 in the fiscal year ended March 31, 2007, while the average price per student-month of our degree major course programs increased by 3.1% to RMB80 from RMB77 during the same periods. The decrease in the degree major student-months was due primarily to an increasing number of students graduating from our existing degree major course programs not being fully offset by new student intake into the programs.

Test preparation and training solutions. Our revenues from test preparation and training solutions increased to RMB36.9 million in the fiscal year ended March 31, 2008 from RMB10.1 million in the fiscal year ended March 31, 2007, primarily as a result of rapid increases in the sales of our NTET Tutorial Platform and our online test preparation services. Sales of our NTET Tutorial Platform contributed RMB31.8 million, or 86.1%, of our test preparation and training solutions revenues in the fiscal year ended March 31, 2008. Revenues from our

online test preparation services for finance industry-related tests accounted for majority of the remainder of our test preparation and training solutions revenue in the fiscal year ended March 31, 2008.

Other. Other revenue increased by RMB1.0 million, or 13.8%, to RMB8.4million in the fiscal year ended March 31, 2008 from RMB7.4 million in the fiscal year ended March 31, 2007, primarily due to an increase in revenues from ancillary test services.

Gross Profit

Our gross profit increased by RMB61.4 million to RMB105.1 million in the fiscal year ended March 31, 2008 from RMB43.8 million in the fiscal year ended March 31, 2007. Our gross margin increased to 61.1% in the fiscal year ended March 31, 2008 from 51.6% in the fiscal year ended March 31, 2007. This increase in our gross margin was principally due to the significantly higher gross margins of our NTET Tutorial Platform and ATA Online s online test preparation and training solutions, both of which were introduced in November 2006 and have a much lower cost structure relative to our testing services and test-based educational services. Offsetting this was an increase in our test monitoring costs, due principally to higher monitoring costs related to the initial national banker licensure tests that we delivered.

Operating Expenses

Our operating expenses increased by RMB18.3 million, or 28.9%, to RMB81.7 million in the fiscal year ended March 31, 2008 from RMB63.4 million in the fiscal year ended March 31, 2007, primarily resulting from a substantial increase in our general and administrative expenses. In connection with our grant of share options to certain employees in October 2007 and share options to two independent directors in January 2008, we expect to incur operating expenses of RMB9.7 million ($1.4 million) and RMB1.9 million over the vesting schedule of the options. Twenty-five percent of the October 2007 options granted vest on January 1, 2008, while the remaining 75% vest ratably at the end of each month over the following 30-month period. Twenty-five percent of the January 2008 options granted vested on January 28, 2009, while the remaining 75% vest ratably at the end of each month over the following 36-month period. The share-based compensation expenses were RMB2.5 million and RMB7.3 million in the fiscal year ended March 31, 2007 and 2008, respectively

Research and development expenses. Our research and development expenses increased by RMB3.6 million, or 38.2%, to RMB12.9 million in the fiscal year ended March 31, 2008 from RMB9.3 million in the fiscal year ended March 31, 2007. This increase was due primarily to increases in outsourcing service fee, salaries and other compensation expenses relating to our research and development professionals. Research and development expenses as a percentage of our total net revenues decreased significantly during this period.

Sales and marketing expenses. Our sales and marketing expenses increased by RMB6.8 million, or 30.8%, to RMB28.8 million in the fiscal year ended March 31, 2008 from RMB22.0 million in the fiscal year ended March 31, 2007. Sales and marketing expenses as a percentage of our total net revenues decreased to 16.7% in the fiscal year ended March 31, 2008 from 26.0% in the fiscal year ended March 31, 2007. This percentage decrease was primarily related to our increase in revenues from testing services and test preparation and training solutions, as business development activities for testing services and test preparation and training solutions require less sales and marketing outlays compared to business development activities for test-based educational services.

General and administrative expenses. Our general and administrative expenses increased by RMB8.0 million, or 25.0%, to RMB40.0 million in the fiscal year ended March 31, 2008 from RMB32.0 million in the fiscal year ended March 31, 2007. This increase was primarily due to an increase of RMB2.6 million in share-based compensation and an increase of RMB2.2 million related to an increase in employees salaries and bonuses. Although our general and administrative expenses increased significantly over this period, general and administrative expenses as a percentage of our total net revenues decreased to 23.3% in the fiscal year ended March 31, 2008 from 37.7% in the fiscal year ended March 31, 2007.

Equity in Net Loss of an Affiliate

We did not have any equity in loss of affiliates in the fiscal year ended March 31, 2008, compared with loss in affiliates of RMB0.2 million in the fiscal year ended March 31, 2007, all of which derived from our 40% equity interest in Wendu Education, which was sold during the fiscal year ended March 31, 2008.

Gain from Sale of an Affiliate

We sold 100% of our equity interest in Wendu Education during the fiscal year ended March 31, 2008 and recognized RMB2.8 million in income in relation to the sale.

Gain from Liquidation of an Affiliate

We recognized a gain in relation to proceeds received upon completion of the liquidation of ATA Jiangsu of RMB1.0 million and RMB1.5 million in the fiscal years ended March 31, 2008 and 2007, respectively.

Interest Income

Our interest income was RMB0.5 million in the fiscal year ended March 31, 2008 and RMB0.6 million in the fiscal year ended March 31, 2007. Our interest income declined slightly in the fiscal year ended March 31, 2008 because of lower deposit interest rates.

Foreign Currency Exchange Losses, Net

Our net foreign currency exchange losses decreased to RMB0.2 million in the fiscal year ended March 31, 2008 from RMB0.9 million in the fiscal year ended March 31, 2007 primarily due to the change of ATA Inc. and ATA BVI s functional currency to U.S. dollars effectively from February 2, 2008 due to the significant changes in ATA Inc. s and ATA BVI s economic facts and circumstances. The completion of our initial public offering resulted in our cash flows being denominated in U.S. dollars. Effective from February 2, 2008, assets and liabilities of ATA Inc. and ATA BVI are translated into RMB using the applicable exchange rate at each balance sheet date. Revenues, if any, and expenses are translated at average rates prevailing during the year. The gains and losses from such translations are recorded as a separate component of accumulated other comprehensive income or loss within shareholders equity. If the functional currency for ATA Inc. and ATA BVI had not been changed, the foreign currency exchange losses would be RMB8.2 million in the fiscal year ended March 31, 2008.

Income Tax Benefit (Expense)

We had an income tax expense of RMB7.3 million in the fiscal year ended March 31, 2008, compared with an income tax benefit of RMB1.8 million in the fiscal year ended March 31, 2007. The increase in income tax expenses was mainly because we had a profit before income tax in the fiscal year ended March 31, 2008 compared to a loss before income tax in the fiscal year ended March 31, 2007. Our effective tax rate increased from 9.6% in the fiscal year ended March 31, 2007 to 26.6% in the fiscal year ended March 31, 2008, mainly due to the impact from non-tax-deductible expenses, which decreases our income tax benefit in periods we incurred losses and increases our income tax expenses in periods we recognize profit. Change in valuation allowance for deferred income tax assets also contributed to the increase in effective tax rate.

The tax holiday decreased the actual income tax benefit by RMB155,072 and decreased the actual income tax expense by RMB823,254 in the fiscal years ended March 31, 2007 and 2008, respectively. The effect of the tax holiday on basic earnings (loss) per common share in the fiscal years ended March 31, 2007 and 2008 were RMB(0.01) and RMB0.03, respectively. The effect on diluted earnings (loss) per common share of the tax holiday in the fiscal years ended March 31, 2007 and 2008 were RMB(0.01) and RMB0.02, respectively.

Net (Loss) Income

As a result of the above factors, we had net income of RMB20.2 million in the fiscal year ended March 31, 2008 as compared to a net loss of RMB16.8 million in the fiscal year ended March 31, 2007.

The basic (loss) earnings per common share were RMB(0.82) and RMB0.79 in the fiscal years ended March 31, 2007 and 2008, respectively. The diluted (loss) earnings per common share were RMB(0.82) and RMB0.53 in the fiscal years ended March 31, 2007 and 2008, respectively. The Company s dilutive common equivalent shares in the fiscal years ended March 31, 2007 and 2008 consisted of 920,119 and 2,062,324 common shares issuable upon exercise of outstanding share options, respectively (using the treasury stock method), 1,143,994 and 481,125 common shares issuable upon exercise of warrants, respectively (using the treasury stock method), and 11,655,493 and 9,775,462 common shares issuable upon the conversion of the convertible preferred shares, respectively (using the as-converted method). These potentially dilutive securities were not included in the calculation of dilutive loss per share for the period ended March 31, 2007 due to their anti-dilutive effect.

B. Liquidity and Capital Resources

Historically, we have financed our working capital and capital expenditure requirements primarily through debt financing and more recently through the sale of our equity securities. On February 1, 2008, we completed our initial public offering and received proceeds of RMB298.3 million, net of related offering expenses.

As of March 31, 2009, we had RMB310.5 million ($45.4 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 from cash flows 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, 2007, 2008 and 2009:

	For the fiscal year Ended March 31,			
	2007	2008	2009	
	RMB	RMB	RMB	US$
		(In thousands)		
Net cash provided by (used in) operating activities	(16,524)	305	31,538	4,615
Net cash provided by (used in) investing activities	1,052	(5,107)	(35,053)	(5,130)
Net cash provided by (used in) financing activities	16,030	299,286	(10,640)	(1,557)
Effect of foreign exchange rate changes on cash	(163)	(7,306)	(7,539)	(1,103)
Net (decrease) increase in cash	395	287,178	(21,694)	(3,175)
Cash at beginning of year	44,624	45,019	332,197	48,617
Cash at end of year	45,019	332,197	310,503	45,442

2009

Net cash provided by operating activities was RMB31.5million ($4.6 million) in the fiscal year ended March 31, 2009 compared to net cash provided by operating activities of RMB0.3 million ($0.04 million) in the fiscal year ended March 31, 2008. In the fiscal year ended March 31, 2009, we experienced a significant increase in cash collected from our testing services and test preparation and training solutions, including RMB59.8 million cash collected from test takers in relation to tests delivered for the China Banking Association, including an advance received for tests taken in May and June, 2009. Our current testing services and test preparation and training solutions clients generally have a shorter accounts receivable cycle than our test-based educational services clients. Partially offsetting this increased cash inflow was an increase in cash paid for income taxes of RMB4.6 million ($0.7 million) primarily due to the increased taxable incomes, and there was an increase in cash expenditures on test monitoring costs and other operating expenses primarily due to the increased number of the tests delivered and development and marketing efforts for TOEIC, HR select and Cambridge ESOL Young Learners English services.

Net cash used in investing activities in the fiscal year ended March 31, 2009 of RMB35.1million ($5.1 million) was primarily attributable to the RMB20.5million ($3.0 million) upfront royalty fee paid to ETS and RMB14.2 million spent on software and capital equipment, including computers and servers.

Net cash used in financing activities in the fiscal year ended March 31, 2009 was RMB10.6 million ($1.6 million), primarily attributable to RMB10.1 million ($1.5 million) used to repurchase our common share in the open market, offset by proceeds of RMB1.0 million ($0.15 million) from exercise of warrants.

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 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. 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.

From time to time, we evaluate possible investments, acquisitions or divestments and may, if a suitable opportunity arises, make an investment or acquisition or conduct a divestment. We generally deposit our excess cash in interest-bearing bank accounts located at banks in China and Hong Kong.

2007 and 2008

Net cash provided by operating activities was RMB0.3 million in the fiscal year ended March 31, 2008 compared to net cash used in operating activities of RMB16.5 million in the fiscal year ended March 31, 2007. Our current testing services and test preparation and training solutions clients generally have a shorter accounts receivable cycle than our test-based educational services clients. Offsetting this cash inflow were cash expenditures on test monitoring costs, license fees paid to IT vendors and other operating expenses.

Net cash provided by investing activities was RMB1.1 million in the fiscal year ended March 31, 2007 and was affected principally by the deposit of RMB2.0 million received from the sale of Wendu Education, and RMB5.1 million received from the collection of loans and advances to shareholders and management in connection with a new policy implemented by us to eliminate personal loans and minimize operations-related loans and advances available to shareholders and management. Offsetting these cash increases was a capital expenditure of RMB4.7 million mainly used to purchase computers and servers to support our new business initiatives such as online test preparation services. Net cash provided by investing activities in the fiscal year ended March 31, 2008 of RMB5.1 million was primarily attributable to the proceeds from disposal of our interest in Wendu Education and from the liquidation of ATA Jiangsu, offset by RMB5.7 million spent on capital equipment, including computers and servers, and by RMB4.4 million paid as the deposit pursuant to the acquisition agreement for Beijing JDX and JDX BVI.

Net cash provided by financing activities was RMB16.0 million in the fiscal year ended March 31, 2007. This was primarily attributable to the cash proceeds from the exercise of a warrant held by SB Asia Investment Fund II L.P. to purchase preferred shares for RMB24.0 million. Offsetting these proceeds was RMB8.0 million paid in connection with preparations for our initial public offering incurred in the fiscal year ended March 31, 2007. Net cash provided by financing activities in the fiscal year ended March 31, 2008 was RMB298.3 million ($42.5 million), primarily attributable to the proceeds of RMB317.6 million raised from our initial public offering, offset by RMB19.3 million cash paid in connection with the preparation for our initial public offering.

Capital Expenditures

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

	For the Year Ended March 31,			
	2007	2008	2009	
	RMB	RMB	RMB	US$
	(In thousands)			
Total capital expenditures	4,721	5,723	34,688	5,077

In the past, our capital expenditures were made primarily for the purchase of software, computer equipment and servers. Our capital expenditures in the fiscal year ended March 31, 2010 are expected to be higher than in the past due to purchases of office space. On August 7, 2008, we entered into agreements to purchase our Beijing office space for total cash consideration of RMB51.5 million. On August 12, 2008, RMB0.4 million was paid to the seller as a deposit, and the remainder of the consideration was paid on July 2009 to the sellers.

In March 2009, ATA signed an agreement of cooperation with ETS pursuant to which ATA will be the exclusive agent for ETS s TOEIC exam in China for ten years from March 2009. We paid ETS a $3 million upfront royalty fee in March 2009, which will be amortized over the ten year contract period.

Foreign Currency Exchange

We maintain our accounts in Renminbi, Hong Kong dollars and U.S. dollars. Through February 1, 2008, ATA Inc. and ATA BVI s functional currency was RMB. Effective February 2, 2008, ATA Inc. and ATA BVI changed their functional currency to U.S. dollars due to the significant changes in ATA Inc. s and ATA BVI s economic facts and circumstances. Our PRC subsidiaries and variable interest entity s functional currency is Renminbi. The non-Renminbi portion of our revenues have primarily consisted of U.S. dollar-denominated licensing fees and royalty payments, while the non-Renminbi portion of our expenditures have primarily consisted of professional fees, both denominated in U.S. dollars, as well as certain Hong Kong dollar-denominated general and administrative expenses. As of March 31, 2009, we had RMB311.0 million (US$45.5 million) in cash, including RMB243.0 million (US$35.6 million) bank balance held in U.S. dollar-denominated accounts with banks in Hong Kong. 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 December 2007, the FASB issued SFAS No. 141R, a revision of SFAS No. 141, *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes requirements for the recognition and measurement of acquired assets, liabilities, goodwill, and non-controlling interests (formerly minority interests). SFAS No. 141R also provides disclosure requirements related to business combinations. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. SFAS No. 141R will be applied prospectively to business combinations with an acquisition date on or after the effective date.

In December 2007, the FASB issued SFAS No. 160, *Non-Controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes new standards for the accounting for and reporting of non-controlling interests and for the loss of control of partially owned and consolidated subsidiaries. SFAS No. 160 does not change the criteria for consolidating a partially owned entity. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The provisions of SFAS No. 160 will be applied prospectively upon adoption except for the presentation and disclosure requirements, which will be applied retrospectively. SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as non-controlling interests and classified as a component of equity. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except for not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. Management does not expect the initial adoption of SFAS No. 160 will have a material impact on the Company s consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position FSP 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the guidance in SFAS No. 142, *Goodwill and Other Intangible Asset* , about estimating the useful lives of recognized intangible assets, and requires additional disclosures related to renewing or extending the terms of recognized intangible assets. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Management does not expect the initial adoption of FSP FAS 142-3 will have a material impact on the Company s consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 addresses accounting and disclosure requirements related to subsequent events and requires management to evaluate subsequent events through the date the financial statements are either issued or available to be issued, depending on the company s expectation of whether it will widely distribute its financial statements to its shareholders and other financial statement users. Companies will be required to disclose the date through which subsequent events have been evaluated. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* , (SFAS No. 166) and No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167), which significantly changes the accounting for transfers of financial assets and the criteria for determining whether to consolidate a variable interest entity (VIE). SFAS No.166 eliminates the QSPE concept, establishes conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies the financial-asset derecognition criteria, revises how interests retained by the transferor in a sale of financial assets initially are measured, and removes the guaranteed mortgage securitization recharacterization provisions. SFAS 167 requires reporting entities to evaluate former QSPEs for consolidation, changes the approach to determining a VIE s primary beneficiary from a mainly quantitative assessment to an exclusively qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. These Statements require additional year-end and interim disclosures for public and non-public companies that are similar to the disclosures required by FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities*. Eliminating the QSPE concept and changing the approach to determining a VIE s primary beneficiary will mean that more entities will be subject to consolidation assessments and more VIEs likely will be consolidated. SFAS No. 166 and SFAS No. 167 are effective as of the beginning of a company s first fiscal year that begins after November 15, 2009, and for subsequent interim and annual reporting periods. SFAS No. 166 s disclosure requirements must be applied to transfers that occurred before and after its effective date. The two Statements may not be applied before their effective dates. Management does not expect the initial adoption of SFAS No. 166 and SFAS No. 167 will have a material impact on the Company s consolidated financial statements.

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 of 94 people as of March 31, 2009. 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 developing next generation and cutting-edge products and services. Our total expenses for research and development were RMB9.3 million, RMB12.9 million and RMB16.2 million ($2.4 million) in the fiscal years ended March 31, 2007, 2008 and 2009, 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, 2006 to March 31, 2009 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.

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E. Off-Balance Sheet Arrangements

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

F. Tabular Disclosure of Contractual Obligations

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of fiscal year ended March 31, 2009:

	Payment Due by Period				
	Total	Within 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands of RMB)				
Operating Lease Obligations	16,353	3,440	6,862	6,051	
Acquisition Payable Obligation	2,306	2,306			

Our operating lease obligations 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 January 2014, 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. As we purchased our Beijing office space in July 2009, its related lease obligation was not included in the table above.

On October 15, 2007, the Company entered into acquisition agreements to purchase the entire equity interests of Beijing JDX and JDX BVI (the acquiree) for RMB10.0 million. Beijing JDX is a PRC incorporated entity primarily engaged in the development and marketing of software for computer-based tests. JDX BVI is a British Virgin Islands incorporated entity established by the equity holders of Beijing JDX (selling shareholders) to hold exclusive licensing rights for the use of technology owned by Beijing JDX. This acquisition is expected to expand the Company s customer base by allowing it to market test delivery services to the test sponsors that are using the products developed by Beijing JDX. During the year ended March 31, 2008, cash payments of RMB 4.3 million were made to the selling shareholders as a deposit for the acquisition. According to the supplementary agreement signed in August 2008, Beijing JDX should refund RMB2 million of the deposit with the remaining consideration of RMB7.7 million payable through the offset of a receivable due from the selling shareholders of RMB4.7 million related to the exercise of the warrant issued in connection with the acquisition agreements and cash of RMB3 million. As of March 31, 2009, the unpaid cash consideration was RMB2.3 million ($0.3 million) of which RMB2.0 million ($0.3 million) was paid in April 2009 and RMB0.3 million ($44,718) was paid in July 2009.

On August 7, 2008, the Company entered into agreements to purchase its Beijing office building for total cash consideration of RMB51.5 million. On August 12, 2008, RMB0.4 million was paid to the seller as a deposit, and the remainder of the consideration was paid on July 21, 2009.

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

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A. Directors and Senior Management

The following table sets forth certain information relating to our directors and executive officers as of the date of this 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	45	Chairman of the Board of Directors, Chief Executive Officer
Walter Lin Wang	48	Director, President
Carl Yeung	29	Chief Financial Officer
Bo Lin (1)	40	Chief Operating Officer
Andrew Yan	51	Director
Hope Ni	37	Director
Alec Tsui	59	Director
Patrick Tien	52	Vice President of Channel and Sales
Alex Tong	47	Vice President of Business Development
Paul Hsu	43	Vice President of Product Marketing
Jeffery Gao	35	Finance Director
Amy Tung	37	