

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

(Mark One)

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

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2020**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from            to**  
**OR**

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

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

Commission file number: 001-33910

**ATA Creativity Global**

(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)

**c/o 1/F East Gate, Building No. 2, Jian Wai Soho,  
No. 39 Dong San Huan Zhong Road,  
Chao Yang District, Beijing 100022, China**

(Address of Principal Executive Offices)

**Amy Tung  
Chief Financial Officer**

**ATA Creativity Global  
c/o 1/F East Gate, Building No. 2, Jian Wai Soho,  
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Telephone: +8610-6518-1133  
Facsimile: +8610-5869-8106**

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
American Depositary Shares, each representing two common shares, par value \$0.01 per share	AACG	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:

63,304,090 common shares

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

☐ Yes ☒ No

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

☐ Yes ☒ No

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

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

☒ Yes ☐ No

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Emerging growth company ☐

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

<sup>†</sup>The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

U.S. GAAP ☒

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

Other ☐

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

☐ Item 17 ☐ Item 18

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

☐ Yes ☒ No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark <sup>xxx</sup> whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

☐ Yes ☐ No

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## INTRODUCTION

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

- we changed our fiscal year end from March 31 to December 31 in June 2017 and filed a transition report on Form 20-F covering the nine-month period from April 1, 2017 through December 31, 2017 (the “Transition Period”). Unless otherwise noted, all references to years are to the calendar years from January 1 to December 31 and references to our fiscal year or years are to the fiscal year or years which, prior to the Transition Period, ended March 31, and from and after the Transition Period, ended December 31;
- “we,” “us,” “our company,” “our,” the “Company” and “ACG” refer to ATA Creativity Global, formerly known as ATA Inc., its subsidiaries and its consolidated variable interest entity (“VIE”) and VIE’s subsidiaries as the context requires. On August 16, 2018, we completed the sale of ATA Online (Beijing) Education Technology Co., Ltd., or ATA Online, and its subsidiaries as well as ATA Learning (Beijing) Inc., or ATA Learning, and Zhongxiao Zhixing Education Technology (Beijing) Limited, or Zhongxiao Zhixing, which were former subsidiaries of ACG incorporated under the laws of China and holding companies of ATA Online (collectively referred to as the “ATA Online Business”). After the completion of such sale of the ATA Online Business, ACG’s subsidiaries no longer include ATA Online and its direct shareholding companies, ATA Learning and Zhongxiao Zhixing. In 2019, we completed the acquisition of 100% equity interests in Beijing Huanquiymeng Education Consultation Corp. (“HQYM”), or Huanquiymeng, a leading provider of educational services for students in China interested in applying for overseas art study (the “Huanquiymeng Acquisition”). After the completion of the Huanquiymeng Acquisition, ACG’s subsidiaries also include Huanquiymeng and its subsidiaries.
- “China,” “Chinese” and “PRC” refer to the People’s Republic of China, excluding, for purposes of this annual report only, Taiwan and the Special Administrative Regions of Hong Kong and Macau;
- all references to “Renminbi” or “RMB” are to the legal currency of China, and all references to “U.S. dollars,” “dollars,” “\$” or “US\$” are to the legal currency of the United States.
- “U.S. GAAP” refers to generally accepted accounting principles in the United States.
- “PRC GAAP” refers to generally accepted accounting principles in the People’s Republic of China.
- “credit hour” refers to the standard unit we use to measure educational credit for our portfolio training services (as defined below) and other educational services; each credit hour roughly equals one hour of time committed by our teachers in our portfolio training services and other educational services.

This annual report on Form 20-F includes our audited consolidated financial statements as of December 31, 2019 and 2020 and for each of the years in the three-year period ended December 31, 2020, and the related notes. Each of our American depositary shares, or ADSs, represents two common shares. Our ADSs are listed on the Nasdaq Global Market under the symbol “AACG”.

## 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 facts in this annual report are forward-looking statements. In some cases, these forward-looking statements can be identified by words and phrases such as “may,” “should,” “intend,” “predict,” “potential,” “continue,” “will,” “expect,” “anticipate,” “estimate,” “plan,” “believe,” “is /are likely to” or the negative form of these words and phrases or other 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 products and services;
- our future business development and results of operations;
- our plans for mergers and acquisitions;
- the impact of the sale of the ATA Online Business;
- the impact of the Huanqiuyimeng Acquisition;
- projected revenues, profits, earnings and other estimated financial information;
- our plans to expand and enhance our products and services;
- the potential market size and growth of our products and services;
- competition in the market for our products and services;
- Chinese laws, regulations and policies, including those applicable to the education industry, internet content providers and foreign exchange;
- the impact of the political tensions between the United States and China;
- the impact of the outbreak and continuing spread of the coronavirus disease (“COVID-19”) and other pandemic or natural disaster; and
- assumptions underlying or related to any of the foregoing.

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 and under the heading “Risk Factors,” below. Except to the extent required by applicable laws and regulations, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date on which the statements are made or to reflect the occurrence of unanticipated events.

**PART I.**

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

Not applicable.

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

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

**Selected Consolidated Financial Data**

We changed our fiscal year end from March 31 to December 31 in June 2017. The following selected consolidated statements of comprehensive income (loss) data (other than ADS data) for the fiscal years ended December 31, 2018, 2019 and 2020, and the selected consolidated balance sheets data as of December 31, 2019 and 2020 are derived from our audited consolidated financial statements included elsewhere in this annual report and should be read in conjunction with such consolidated financial statements and related notes. The selected consolidated statement of comprehensive income (loss) data for the fiscal year ended March 31, 2017, the nine months ended December 31, 2017, and the selected consolidated balance sheet data (other than ADS data) as of March 31, 2017, December 31, 2017 and December 31, 2018 have been derived from our audited consolidated financial statements for the fiscal year ended March 31, 2017, the nine months ended December 31, 2017 and the fiscal year ended December 31, 2018, which are not included in this annual report. The unaudited financial data for the nine months ended December 31, 2016 and the twelve months ended December 31, 2017 are presented solely for the purpose of providing meaningful comparisons with the nine months ended December 31, 2017 and the fiscal year ended December 31, 2018, respectively.

On August 16, 2018, we completed the sale of the ATA Online Business, which historically operated our computer-based testing services, online education services and other related services. Consequently, our computer-based testing services, online education services and other related services were accounted for as discontinued operations in accordance with U.S. GAAP in our consolidated financial statements. As required by U.S. GAAP, we have reclassified the comparative operating results for the discontinued operations for the nine months ended December 31, 2016 and 2017, the twelve months ended December 31, 2017, the fiscal year ended March 31, 2017 and the fiscal year ended December 31, 2018.

In 2019, we acquired 100% equity interests of Huanqiuyimeng, a leading provider of educational services for students in China who are interested in applying for overseas art study. We consolidated the financial statements of Huanqiuyimeng and its subsidiaries since August 6, 2019 (the “Acquisition Date”) 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 Fiscal Year Ended March 31,	For the Nine Months Ended December 31,		For the Twelve Months Ended December 31,	For the Fiscal Year Ended December 31,			
	2017	2016	2017	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	US\$
	(Unaudited)		(Unaudited)		(Unaudited)			
(In thousands, except for per share and per ADS data)								
Selected Consolidated Statements of Comprehensive Income (Loss) Data:								
Net revenues	8,831	6,628	5,186	7,389	1,339	97,770	162,168	24,853
Gross profit (loss)	4,424	3,392	1,400	2,432	(2,912)	35,856	63,647	9,754
Total operating expenses	61,228	47,212	60,088	74,104	68,672	154,216	171,455	26,277
Other operating income, net	—	—	—	—	3,793	588	330	50
Loss from continuing operations	(56,804 )	(43,820 )	(58,688 )	(71,672)	(67,791)	(117,772 )	(107,478)	(16,472)
Impairment loss of long-term investments	—	—	(15,217 )	(15,217)	(6,381)	(26,815 )	(1,726)	(265)
Change in fair value of long-term investment	—	—	—	—	2,750	—	—	—
Income tax expense (benefit)	1,518	—	(2,109)	(591)	—	(7,150)	(10,268)	(1,574)
Loss from continuing operations, net of income taxes	(59,741 )	(45,036 )	(72,804 )	(87,509)	(68,053)	(134,112 )	(100,585)	(15,415)
Discontinued operations:								
Income (loss) from operations of discontinued operations, net of income taxes	49,772	88,980	100,641	61,433	(18,951)	—	—	—
Gain from disposal of discontinued operations, net of income taxes	—	—	—	—	937,606	4,894	—	—
Income from discontinued operations, net of income taxes	49,772	88,980	100,641	61,433	918,655	4,894	—	—
Net income (loss)	(9,969 )	43,944	27,837	(26,076)	850,602	(129,218 )	(100,585)	(15,415)
Net loss attributable to redeemable non-controlling interests from continuing operations	—	—	(1,445 )	(1,445)	(3,181)	(2,821 )	(2,583)	(396)
Net loss attributable to non-redeemable non-controlling interests from continuing operations	—	—	—	—	(1,132)	(4,143 )	(5,804)	(890)
Net loss attributable to non-redeemable non-controlling interests from discontinued operations	(253 )	(34 )	(352)	(571)	(11)	—	—	—
Net income (loss) attributable to ATA Creativity Global	(9,716 )	43,978	29,634	(24,060)	854,926	(122,254 )	(92,198)	(14,129)
Net loss from continuing operations attributable to ATA Creativity Global	(59,741 )	(45,036 )	(71,359 )	(86,064)	(63,740)	(127,148 )	(92,198)	(14,129)
Net income from discontinued operations attributable to ATA Creativity Global	50,025	89,014	100,993	62,004	918,666	4,894	—	—
Basic and diluted earnings (losses) per common share attributable to ATA Creativity Global	(0.21 )	0.96	0.48	(0.69)	18.25	(2.52 )	(1.57)	(0.24)
Basic and diluted earnings (losses) per ADS(1) attributable to ATA Creativity Global	(0.42 )	1.92	0.96	(1.38)	36.50	(5.04 )	(3.14)	(0.48)
Basic and diluted losses from continuing operations per common share attributable to ATA Creativity Global	(1.31 )	(0.98 )	(1.72 )	(2.04)	(1.81)	(2.62 )	(1.57)	(0.24)
Basic and diluted earnings from discontinued operations per common share attributable to ATA Creativity Global	1.10	1.94	2.20	1.35	20.06	0.10	—	—
Basic and diluted loss from continuing operations per ADS(1) attributable to ATA Creativity Global	(2.62 )	(1.96 )	(3.44 )	(4.08)	(3.62)	(5.24 )	(3.14)	(0.48)
Basic and diluted earnings from discontinued operations per ADS(1) attributable to ATA Creativity Global	2.20	3.88	4.40	2.70	40.12	0.20	—	—
Dividends declared per common share	—	—	1.334	1.334	20.384	—	—	—
Weighted average common shares outstanding								
Basic	45,772,916	45,769,707	45,793,127	45,790,562	45,796,886	50,915,710	62,660,037	
Diluted	45,772,916	45,769,707	45,793,127	45,790,562	45,796,886	50,915,710	62,660,037	

(1) Each ADS represents two common shares.

	As of	As of December 31,				
	March 31,					
	2017	2017	2018	2019	2020	
	RMB	RMB	RMB	RMB	RMB	US\$
(In thousands)						
Selected Consolidated Balance Sheets Data:						
Cash and cash equivalents	37,196	53,478	190,586	154,198	112,723	17,276
Current assets of discontinued operations	245,103	310,014	—	—	—	—
Total current assets	295,945	366,816	213,395	183,560	120,940	18,535
Long-term investments	81,051	70,022	66,391	45,726	44,000	6,743
Intangible assets, net	3,968	5,746	17,123	135,600	110,586	16,948
Goodwill	—	—	—	200,479	194,755	29,848
Right-of-use assets	—	—	—	40,786	41,779	6,403
Other non-current assets	34,443	4,004	800	16,403	22,950	3,517
Non-current assets of discontinued operations	59,771	79,551	—	—	—	—
Total assets	519,840	568,442	335,139	676,090	575,621	88,218
Accrued expenses and other payables	50,681	28,019	18,112	47,747	47,020	7,206
Lease liabilities-current	—	—	—	20,556	16,972	2,601
Deferred revenues	1,418	2,026	1,634	171,880	199,448	30,567
Current liabilities of discontinued operations	47,482	111,721	—	—	—	—
Total current liabilities	103,030	141,766	19,746	264,816	274,884	42,128
Non-current liabilities of discontinued operations	1,732	25,299	—	—	—	—
Lease liabilities-non-current	—	—	—	12,500	24,006	3,679
Total liabilities	127,383	167,065	19,746	325,558	327,875	50,249
Mezzanine equity-redeemable non-controlling interests	—	36,304	39,209	44,896	48,498	7,433
Common shares	3,534	3,535	3,535	4,692	4,717	723
Retained earnings (accumulated deficits)	38,019	25,885	(71,889)	(200,151)	(298,534)	(45,752)
Total shareholders' equity attributable to ATA Creativity Global	391,377	364,730	275,817	300,140	198,405	30,407
Total shareholders' equity	392,457	365,073	276,184	305,635	199,248	30,536

#### Exchange Rate Information

We conduct our business primarily in China and majority of our revenues and expenses are denominated in Renminbi. The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in the City of New York for cable transfers of Renminbi per U.S. dollars certified for customs purposes by the Federal Reserve Bank of New York, as set forth in the H.10 weekly statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at a rate of RMB 6.5250 to US\$1.00, which was the noon buying rate in effect as of December 31, 2020. 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, or at all.

#### B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

#### D. Risk Factors

##### Summary of Risk Factors

Investing in our ADSs may expose you to a number of risks, including risks relating to our business, risks relating to doing business in the People's Republic of China, risks relating to our corporate structure and risks relating to our ADSs. The following summarizes part, but not all, of these risks. Please carefully consider all of the information discussed in "Item 3. Key Information—D. Risk Factors" in this annual report which contains a more thorough description of risks relating to investing in us.



### ***Risks Relating to Our Business***

- we may not be able to generate sufficient net income from our business operations to sustain our continued expansion.
- failure to develop or market our new businesses could impact our competitive position.
- if market acceptance for and the growth of our products and services declines, or demand for our products and services stagnates or declines, we may experience a decrease in revenues.
- if we are not able to continue to attract students to enroll in our portfolio training services without a significant decrease in course fees, our revenues may decline.
- if we are not able to continue to hire and retain qualified teachers, or if our teachers fail to deliver quality services, we may not be able to maintain consistent teaching quality.
- if we fail to build, maintain and enhance the value of our brand, our business may not grow.
- if we are not able to develop and expand our online course services and adapt them to rapid technological changes and student needs, we may lose market share and our business could be adversely affected.
- any deterioration in our relationships with overseas schools and institutions may adversely affect our business.
- terrorist attacks, geopolitical uncertainty, pandemics, economic slowdown and international conflicts may discourage more students from studying outside of China, which could cause declines in the student enrollment for our courses.
- we depend on our senior management team and other key personnel and our business may be severely disrupted if we lose their services and are unable to replace them.
- the audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.
- 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.
- the discontinuation of any of the preferential tax treatments currently enjoyed by our subsidiaries in China could materially increase our tax obligations.
- our training centers may be characterized as private schools and thus be required to obtain private school operating permits, and failure to obtain such permits may materially and adversely affect our business operations.
- China's economic, political and social conditions, as well as changes in any government policies, laws and regulations, could adversely affect the overall economy in China or the prospects of the industries in which we operate, which in turn could impact our financial performance.
- the Chinese legal system has inherent uncertainties that could limit the legal protections available to you and us.
- fluctuations in exchange rates could result in foreign currency exchange losses.
- our ability to provide our creative arts related international educational services may be subject to significant limitations or may otherwise be materially and adversely affected by changes in PRC laws and regulations.
- the outbreak of COVID-19 and any future outbreak of severe acute respiratory syndrome, avian flu or coronavirus in China, or similar adverse public health developments, may disrupt our business and operations and adversely affect our financial results.
- refunds or potential refund disputes of our course fees may negatively affect our business, financial condition and results of operations.

### ***Risks Relating to Our Corporate Structure***

- if the PRC government deems our contractual arrangements relating to our variable interest entity do not comply with PRC regulatory restrictions, we could be subject to severe penalties or be forced to relinquish our interests in those operations.
- any failure by ATA Intelligent Learning or its shareholders to perform their obligations under our contractual arrangements with them would have a material and adverse effect on our business.
- the shareholders of ATA Intelligent Learning may have potential conflicts of interest with us.
- contractual arrangements relating to ATA Intelligent Learning may be subject to scrutiny by the PRC tax authorities.

### ***Risks Relating to Our ADSs***

- our ADS prices and the ADS or stock prices of other educational services providers with business operations primarily in China have fluctuated widely in recent years, which fluctuations could result in substantial losses to investors.
- we may fail to comply with Nasdaq's minimum bid price requirement or any other listing requirements, although we have regained compliance with Nasdaq listing requirements, and our shares may be delisted if we are unable to regain compliance with Nasdaq rules within the applicable grace periods.
- the sale or availability for sale of substantial amounts of our ADSs could adversely affect their market price.
- 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.
- 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.
- certain judgments obtained against us by our shareholders may not be enforceable.
- we have been named as a defendant or interested third party in three lawsuits in connection with our sale of ATA Online.

### ***Risks Relating to Our Business***

***Historically, we were dependent on revenues from the ATA Online Business; after the completion of our sale of the ATA Online Business and the Huanquiyimeng Acquisition, we may not be able to generate sufficient net income from our business operations to sustain our continued expansion.***

The ATA Online Business historically represented the principal source of revenues and profit for the Company. On August 16, 2018, we completed the sale of the ATA Online Business which was consequently reclassified as discontinued operations. In 2019, we completed the acquisition of 100% equity interests of Huanquiyimeng, a leading provider of educational services for students in China interested in applying for overseas art study. After the Huanquiyimeng Acquisition, our business operations primarily include portfolio training services, research-based learning services (named as "educational travel services" in the annual report of the year ended December 31, 2019). We have revised the description of this service line because we have broadened the scope of this service by developing certain new online courses and art-themed programs in response to the COVID-19 outbreak), overseas study counselling services, other educational services, K-12 education assessment and other services. Given that we have only a short operating history for portfolio training services, research-based learning services, overseas study counselling services and other educational services after the acquisition, we cannot assure you that we will be able to generate sufficient net income from our business operations to sustain our continued operations and expansion.

***We have a limited operating history in providing our new creative arts related international education services. As a result, it is difficult for us to predict our results of operations and you should not rely on our historical results of operations as an indication of our future financial performance.***

After the completion of our sale of the ATA Online Business and the Huanqiuyimeng Acquisition, we shifted our focus from computer-based testing services to creative arts related international education services. Although we have been leveraging our expertise in educational technologies and industry relationships, as well as resources and competencies, to pursue the development and expansion of our newly acquired businesses, given our limited history operating our newly acquired businesses, we may not be able to adapt quickly to such major business changes, compete successfully in new markets, build our brand in new sectors and generate sufficient net income from our new businesses. As a result, it is difficult for us to predict our results of operations with respect to our newly acquired business and you should not rely on our historical results of operations as an indication of our future financial performance.

***Failure to develop or market our new businesses could impact our competitive position and have an adverse effect on our financial results.***

Our operating results in the future will depend on our ability to develop our new businesses, including our creative arts related international education services and other services, and bring those services to the market. This ability could be adversely affected by difficulties or delays in product development and marketing such as greater than anticipated development costs, technical difficulties, regulatory obstacles, competition, lack of demand, insufficient intellectual property protection, or lack of market acceptance of our new products and services. There can be no assurance that any of the products and services we are currently developing or marketing, or begin to develop or market in the future, will achieve substantial commercial success. If we fail to develop or market our new businesses in the way or on the timeline as we expect, or at all, our growth and financial results will be adversely impacted.

***If market acceptance for and the growth of our products and services declines, or demand for our products and services stagnates or declines, our revenue growth may slow or we may experience a decrease in revenues.***

Currently, we are focused on providing creative arts related international education services to high school and undergraduate students. We cannot assure you that a market decline will not happen. A decline in the demand for creative arts related international education services by high school and undergraduate students could negatively affect the demand for our services. Even if the demand for our creative arts related international education services continues to grow, this demand may not grow as quickly as we anticipate. If market acceptance of our creative arts related international education services declines or fails to grow, our revenue growth may slow or we may experience a decrease in revenues.

***If we are not able to continue to attract students to enroll in our portfolio training services without a significant decrease in course fees, our revenues may decline and our profitability may be adversely affected.***

The success of our business depends primarily on the number of students enrolled in our portfolio training services and the amount of course fees that our students are willing to pay. Therefore, our ability to continue to attract students to enroll in our portfolio training services without a significant decrease in course fees is critical to the continued success and growth of our business. This in turn will depend on several factors, including without limitation our ability to effectively market our services to a broader base of prospective students, develop new services and enhance existing services to respond to changes in market trends and student demands, develop additional high-quality educational content and respond to competitive pressures, and manage our growth while maintaining the consistency of our teaching quality. If we are unable to continue to attract students to enroll in our portfolio training services without a significant decrease in course fees, our revenue may decline and we may not be able to maintain profitability.

***We depend on our dedicated and capable teachers, and if we are not able to continue to hire and retain qualified teachers, or if our teachers fail to deliver quality services, we may not be able to maintain consistent teaching quality and our brand, business and results of operation may be materially and adversely affected.***

Our teachers are critical for maintaining our service quality, our brand and reputation. It is critical for us to continue to attract qualified teachers who have the relevant art background, professional skills, excellent communication skills and commitment and dedication to creative arts related international education services. We also need to hire teachers who are capable of delivering innovative and inspirational instruction to students. The number of teachers that meet our qualifications is limited and we must provide competitive compensation packages to attract and retain such qualified teachers. We also face increasing competition from our competitors for teachers with good reputations and excellent teaching skills. If we fail to hire and retain qualified teachers, we may not be able to maintain consistent teaching quality and our brand, business and operating results may be materially and adversely affected. Additionally, our teachers may join our competitors or set up competing businesses after they discontinue their relationship with us, which could further adversely affect our operating results.

Only around 12% of our teachers are our full-time employees, and the rest are academics from universities and colleges or designers of private studios within their respective specializations who typically work for us on a part-time basis. If our part-time teachers fail to deliver quality courses as a result of inadequate devotion of their time and energy to our courses, our business may also be adversely affected. Furthermore, China promulgated certain regulations in November 2016 requiring post-secondary teachers to obtain approval from their employers prior to engaging in part-time jobs. If these part-time teachers choose to, or are forced to, discontinue their relationship with us to comply with such regulations, we will need to seek new teachers to replace them. We cannot assure you we will be able to find replacements at a reasonable cost on a timely basis, if at all.

***If we fail to build, maintain and enhance the value of our brand, our business may not grow and our financial results may be adversely impacted.***

We believe that market awareness of our “ACG” brand is important to the success of our creative arts related international education businesses, and that maintaining and enhancing the value of our brand is critical to increasing our competitive advantage. Our brand promotion initiatives primarily include cooperating with overseas study counselling agents, language test preparation institutions and other similar sales channels to enhance our brand awareness among students of such sales channels, advertising our brand on the mainstream online search engines and social media platforms, participating in educational seminars, art workshops and on-campus events to give free speeches and lectures in order to introduce and promote our brand name, and periodically participating in and hosting educational expositions and other community events to distribute information brochures and promote our brand name.

As we are still at the stage of building and enhancing our brand recognition, negative comments on our services may result in unfavorable publicity for us, and could materially and adversely damage our brand and reputation, whether or not the comments are objective and fair. Moreover, as we continue to grow in size, expand our service offerings and extend our geographic reach, it may be more difficult to maintain the quality and consistent standards of our services and to protect and promote our brand name. Furthermore, we cannot assure you that our marketing methods and strategies will be successful in promoting our brand in a cost-effective manner.

If we fail to build, maintain and enhance the value of our brand, or if we incur excessive sales and marketing expenses, our ability to attract new students could be adversely impacted and our business and results of operations may be materially and adversely affected.

***Failure to effectively and efficiently manage the expansion of our training center network may materially and adversely affect our brand, business and operating results.***

We have established 22 training centers in China as of April 6, 2021. We established our first one in 2012. We may continue to expand our operations in different geographic locations in China and abroad. Our expansion has resulted, and will continue to result, in substantial demands on our management, faculty and operational, technological and other resources. Our expansion will also place significant demands on us to maintain the consistency of our teaching quality and our culture to ensure that our brand does not suffer as a result of any decreases in our teaching quality. To manage and support our growth, we must continue to improve our existing operational, administrative and technological systems and our financial and management controls, and recruit, train and retain additional qualified teachers, management personnel and other administrative and sales and marketing personnel, particularly as we expand into new markets. We cannot assure you that we will be able to effectively and efficiently manage the growth of our operations, recruit and retain qualified teachers and management personnel and integrate new training centers into our operations, especially amid COVID-19. Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse impact on our financial condition and results of operations.

***Failure to adequately and promptly respond to changes in requirements and expectations for portfolios could cause our programs, services and products to be less attractive to students.***

Requirements and expectations for portfolios for overseas art program applications vary by school and program. Some schools have strict criteria while others are open and flexible, and such requirements and expectations, whether on substance or format, change continuously. In response to such changes in requirements and expectations for portfolios, we need to adapt our training programs and materials to new requirements and expectations from time to time. Any inability to track and respond to these changes in a timely and cost-effective manner would make our programs, services and products less attractive to students, which may materially and adversely affect our reputation and ability to continue to attract students without a significant decrease in course fees.

***Failure to effectively improve our margins may adversely affect our business and operating results***

Many factors may affect our gross and net margins. For example, in the portfolio training industry, offline one-on-one classes and small-sized classes are the most prevalent types of class format. Currently, the vast majority of our portfolio training courses are delivered through offline one-on-one classes, while only a small amount of our portfolio training courses is delivered through small-sized classes, generally with three to five students in each class or through online platform. Although our offline one-on-one classes are profitable, they are marginally less profitable on average than small-sized classes and online classes. Currently, we are concentrating on developing and expanding our small-sized class model and online-merge-offline model and reducing the cost of our offline one-on-one classes. If we fail to do so, we may not be able to effectively improve our margins, which may adversely affect our business and operating results.

***If we are not able to develop and expand our online course services and adapt them to rapid technological changes and student needs, we may lose market share and our business could be adversely affected.***

Although offline courses are still important and prevalent in the portfolio training industry, the market need for online courses is growing rapidly, especially amid COVID-19, primarily because online courses enable students to take classes from highly skilled teachers who live in other cities. Currently, only a very limited amount of our portfolio training courses is delivered through online courses and we have limited experience with generating revenues from online courses. Ongoing development and expansion of our online courses and related technology may entail significant expense and technical risks. We may fail to use new technologies effectively or adapt our online courses and related technology on a timely and cost-effective basis. If the development and expansion of our online courses and the related technology are delayed, result in system interruptions or are not aligned with market expectations or preferences, we may lose market share and our business could be adversely affected.

***Any deterioration in our relationships with overseas schools and institutions may adversely affect our business.***

We have business collaborations with various overseas schools and institutions to provide education resources for our creative arts related international educational programs. We derive direct benefits from these relationships, such as the ability to provide more professional and effective overseas study counselling services, deliver our portfolio training programs abroad in cooperation with local art training institutions, offer more diverse programs and courses, such as our summer and winter camps for our research-based learning programs, and charge a premium for the services we offer with these overseas schools and institutions. We also derive indirect benefits from these relationships, including the enhancement of our brand and reputation and exposure to international education methods and experiences.

If our relationships with any of these overseas schools and institutions deteriorate or are otherwise damaged or terminated, or if the benefits we derive from these relationships diminishes, whether as a result of our own actions, actions of our partners, actions of any third party, including our competitors, or of regulatory authorities or other entities beyond our control, our business, prospects, financial condition and results of operations could be adversely affected.

***Terrorist attacks, geopolitical uncertainty, pandemics, economic slowdown and international conflicts involving the United States, the United Kingdom and elsewhere may discourage more students from studying in the United States, the United Kingdom and elsewhere outside of China, which could cause declines in the student enrollment for our courses.***

Terrorist attacks, geopolitical uncertainty, pandemics, economic slowdown and international conflicts involving the United States, the United Kingdom and elsewhere, such as the attacks on September 11, 2001, the Boston marathon bombings on April 15, 2013, the referendum on Brexit in June 2016, and the ongoing global coronavirus outbreak, could have an adverse effect on our portfolio training services, research-based learning services, overseas study counselling services and other educational services. Such events may discourage students from studying in the United States, the United Kingdom and elsewhere outside of China and may also make it more difficult for Chinese students to obtain visas to study abroad. These factors could cause declines in the student enrollment for our portfolio training services, research-based learning services, overseas study counselling services and other educational services and could have an adverse effect on our overall business and results of operations.

***Failure to control rental costs, obtain leases at desired locations at reasonable prices or protect our leasehold interests could materially and adversely affect our business.***

Our offices and training centers are mainly located on leased premises. The lease terms generally range from one to five years and the lease agreements are renewable upon mutual consent at the end of the applicable lease period. We may not be able to obtain new leases at desirable locations or renew our existing leases on acceptable terms or at all, which could adversely affect our business. We may have to relocate our operations for various other reasons, including increasing rents, failure to pass fire inspection or to comply with the relevant fire safety regulations in certain locations and the early termination of lease agreements. Our lease agreements are governed by applicable PRC laws and regulations and may be subject to fines ranging from RMB 1,000 to RMB 10,000 for each lease agreement that has not been registered. However, failure to complete such registration would not affect the enforceability of a lease agreement, in practice.

In addition, a few of our lessors have not been able to provide us with copies of title certificates or other evidentiary documents to prove that they have authorization to lease the properties to us or documents proving the completion of the fire inspection of the leased premises. We follow internal guidelines to identify and assess risks in connection with leasing the properties, and a final business decision is made after our analysis of the likely impact of any defects on the leasehold interests and the value of the properties to our expansion plan. However, there is no assurance that our decisions will always lead to the favorable outcomes we expect to achieve. If any of our leases are terminated as a result of challenges by third parties or government authorities for lack of title certificates or proof of authorization to lease, we do not expect to be subject to any fines or penalties but we may be forced to relocate the affected training centers. If any of our uses of a leased premises is challenged by the relevant government authorities for the lack of a fire inspection, we may be subject to fines, rectifications and we may need to relocate the affected training centers. We will incur additional expenses relating to such relocation. If we fail to find a suitable replacement sites in a timely manner or on terms acceptable to us, our business and results of operations could be materially and adversely affected.

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

As part of our business strategy, we previously made strategic investments and acquisitions in complementary businesses. For example, we have made some equity investments in the past and most of them have been fully impaired. We cannot assure you that any particular acquisition or investment will produce the intended benefits or synergies. In the fiscal years ended December 31, 2018 and 2019, we recorded impairment losses of RMB 6.4 million and RMB 5.9 million, respectively, related to our investment in Beijing GlobalWisdom Information Technology Co., Ltd. (“GlobalWisdom”) as GlobalWisdom failed to meet the expected milestones and operational forecasts and encountered a shortage of working capital resulting from continuous negative operating cash flows in the respective periods. In the fiscal year ended December 31, 2019, we recorded an impairment loss of RMB 20.9 million related to our investment in ApplySquare Education & Technology Co., Ltd. (“ApplySquare”) as ApplySquare failed to meet the expected milestones and operational forecasts and encountered a shortage of working capital resulting from continuous negative operating cash flows. Due to the severe shortage of working capital and negative market impact on business of ApplySquare in 2020, we recognized an impairment loss of RMB 1.6 million to reduce the investment to zero as of December 31, 2020.

Currently, we are still exploring potential merger and acquisition targets in the international education sector. In addition, we may also seek to broaden our service offerings in other business sectors, obtain additional students and strengthen our service quality by acquiring other companies or businesses or making strategic investments. However, our ability to implement our acquisition or investment strategies will depend on a number of factors, including the availability of suitable acquisition candidates at an acceptable cost or at all, our ability to compete effectively to attract and reach agreements with acquisition or investment candidates or joint venture partners on commercially reasonable terms, and the availability of financing to complete acquisitions or investment or joint ventures as well as our ability to obtain any required government approvals or licenses. As such, the identification of suitable acquisition or investment targets or joint venture candidates and the consummation of proposed acquisition, investment or joint venture transactions could be difficult, time consuming and costly, and we may not be able to successfully capitalize on identified opportunities. In addition, we may not be successful in integrating acquisitions with our existing operations and personnel. Moreover, the acquisitions or investments we pursue may require us to expend significant management and other resources, which may result in interruptions to our business operations.

There are other risks associated with acquisitions, including:

- unforeseen or hidden liabilities, including exposure to legal proceedings, associated with 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 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;
- possible contravention of Chinese regulations applicable to such acquisitions; and
- possible disputes associated with terminated and failed acquisitions.

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

***Because we do not have any business liability, disruption or litigation insurance coverage for our operations in China and have limited insurance coverage with respect to our research-based learning services, 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 could be held liable for accidents that occur at indoor or outdoor facilities where we organize our research-based learning programs and temporary housing facilities that we lease for our students from time to time. In the event of on-site food poisoning, personal injuries, fires or other accidents suffered by students or other people, we could face claims alleging that we were negligent, provided inadequate supervision or were otherwise liable for any injuries. We are exposed to various risks associated with our research-based learning business and operations, and we have limited insurance coverage. Any successful liability claims against us due to injuries suffered by our students or other people during our research-based learning programs could adversely affect our reputation and our financial results. Even if unsuccessful, such claims could cause unfavorable publicity, require substantial cost to defend and divert the time and attention of our management.

***Failure to comply with regulations relating to information security and privacy protection, breaches or perceived breaches of our security measures relating to our service offerings, unauthorized disclosure or misuse of personal data through breaches of our computer systems or otherwise, could result in negative publicity and loss of students, expose us to protracted and costly litigation, and harm our business and results of operations.***

Our business is facing significant challenges regarding information security and privacy protection, particularly with regard to the collection, storage, transmission and sharing of confidential information, among others. As part of our service offerings, we collect, process, transmit and store the personal information of students. We are required under PRC law to maintain the security and confidentiality of such information. In December 2012, the Standing Committee of the PRC National People's Congress promulgated the Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, to enhance the legal protection of information security and privacy on the internet. The Network Information Protection Decision specifically requires internet operators to take security measures to ensure the confidentiality of user information. We have adopted various security measures pertaining to the collection, processing, transmission or storage of user information. However, any breach or perceived breach in our security measures as a result of third-party actions, employee error, and malfeasance or otherwise could result in liability claims and have a negative impact on our reputation.

The PRC regulatory and enforcement regime with regard to data security and data protection has also been evolving rapidly in recent years. In July 2013, the China's Ministry of Industry and Information Technology (and its predecessors), or MIIT, promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users to regulate the collection and use of users' personal information in the provision of telecommunication services and internet information services in China. On July 1, 2015, the National People's Congress Standing Committee promulgated the National Security Law, or the New National Security Law, which took effect on the same date and replaced the former National Security Law promulgated in 1993. Under the New National Security Law, we are obligated to safeguard national security by, for example, providing evidence related to activities endangering national security, providing assistance for national security work and providing necessary support for national security institutions, public security institutions and military institutions. As such, we may have to provide data to PRC government authorities and military institutions to ensure compliance with the New National Security Law. Complying with such regulations could cause us to incur substantial costs, require us to change our data practices in a manner adverse to our business, or even subject us to negative publicity which could harm our reputation with users and negatively affect our business operations and the trading price of our ADSs. In addition, in November 2016, the National People's Congress Standing Committee promulgated the Cyber Security Law, which took effect on June 1, 2017, to protect cyberspace security and order. The Cyber Security Law tightens control of cyber security and sets forth various security protection obligations for network operators. According to the Cyber Security Law, network operators shall, among others, take security measures to protect networks from unauthorized interference, damage and unauthorized access to prevent data from being divulged, stolen or tampered with. Since 2019, the Cyberspace Administration of China and other relevant authorities further issued detailed implementation rules and measures to refine these information security and privacy protection related regulations.

We are continuously vigilant about protecting and improving our cyber security and have not experienced any material cyber-attacks on our cyber systems. We cannot assure you, however, that our current security measures will be adequate or sufficient to prevent any theft, misuse, or unauthorized interference, damage, or unauthorized or inappropriate disclosure of personal data of our students. In case of any misuse of information collected from our students or any unauthorized interference, damage, or unauthorized or inappropriate disclosure of such information due to our failure to protect it, we could be subject to negative publicity, liability or regulatory penalties. Any such negative publicity, liability or regulatory penalties could cause us to lose students, expose us to costly litigation and have a material adverse impact on our business and results of operations.

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

As our services and products continue to develop, we will face increasing competition, including competition from both established brands and new entrants, who will try to gain market share from us. For our portfolio training services business, we compete with our competitors primarily on the basis of branding and customer acquisition, educational quality, faculty, training center environment, product breadth and pricing, among which, branding and customer acquisition is regarded as the most important factor, while pricing is the least. Our competitors may establish brands that have wider recognition than us, develop marketing and sale methods that are more effective than ours, introduce new products and services that have better performance and gain broader acceptance than our products and services, hire and retain more qualified teachers, or offer more satisfactory training center environments or lower prices to students. As a result, we may lose our market share due to increasing competition, which may negatively affect our revenues and results of operations.

***Our business is subject to fluctuations caused by seasonality or other factors beyond our control, which may cause our operating results to fluctuate from quarter to quarter. This may result in volatility in and adversely affect the price of our ADSs.***

We have experienced and expect to continue to experience slight seasonal fluctuations in our revenues and results of operations, with the quarter ending March 31 typically having relatively lower revenues compared with the other quarters. This is primarily because less students take classes in January and February due to spring festival holidays in China as well as because some students have completed their application for overseas art programs in December of the previous year. We expect quarterly fluctuations in our revenues and results of operations to continue. These fluctuations could result in volatility and adversely affect the price of our ADSs.



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

Our future success is dependent upon the continued services of our senior management team and other key personnel, as we rely on their industry experience and expertise in our business operations. In particular, we rely heavily on Mr. Xiaofeng Ma, our chairman and chief executive officer, and Mr. Jun Zhang, our president, for their business vision, management skills, technical expertise, experience in the education industry and working relationships with many of our business partners, shareholders and other participants in the education industry. If one or more of our senior management team members or other key personnel, and in particular, Mr. Xiaofeng Ma or Mr. Jun Zhang, are unable or unwilling to continue in their present positions, we may not be able to replace them easily, and our business may be disrupted. In addition, if any member of our senior management team or any of our other key personnel joins a competitor of us or forms a competing company, we may lose teachers, students, key professionals and staff members. Each of our senior management team members and key employees is subject to the duty of confidentiality and non-competition restrictions. However, if any disputes arise between any of our senior management team members or key personnel and us, it may be difficult to successfully pursue legal actions against these individuals because of the uncertainties of the PRC legal system.

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

Our copyrights, trademarks, trade secrets, patents and other intellectual property are important to our success. Unauthorized use of any of our intellectual property may adversely affect our business and reputation. We rely on trademark, patent, and copyright law, trade secret protection and confidentiality agreements with our employees, students, 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 the PRC legal system and potential difficulties in 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 business operations, in particular, our trademarks, software, know-how and other technologies do not or will not infringe upon trademarks, valid copyrights, patents 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 were found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. In addition, we may incur substantial expenses, and may be forced to divert management and other resources from our business operations, to defend against these third-party infringement claims, regardless of their merits. 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 need additional capital and any failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our product and service offerings to respond to market demands or competitive challenges.***

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

- investors' perception of, and demand for, securities of international education companies;
- conditions of the U.S., PRC and other capital markets in which we may seek to raise funds;
- our future results of operations and financial condition;
- Chinese government regulation of foreign investment in China;

- economic, political and other conditions in China; and
- Chinese government policies relating to the borrowing and remittance of foreign currency outside China.

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

***Increases in labor costs in China may adversely affect our business and our profitability.***

The economy of China has been experiencing significant growth, leading to inflation and increased labor costs. According to the National Bureau of Statistics of China, the changes in China's consumer price index was 2.1%, 2.9% and 2.5% in the years 2018, 2019 and 2020. China's overall economy and the average wage in China are expected to continue to grow. As a result, the average wage level for our employees and part-time teachers has also increased in recent years. Future increases in China's inflation and material increases in the cost of labor may diminish our competitive advantage and, unless we are able to pass on these increased labor costs to our students by increasing prices for our services, our profitability and results of operations could be materially and adversely affected. The outbreak of COVID-19 may have a material adverse impact on the general economic outlook, economic growth and business sentiment (see "Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in the People's Republic of China— The outbreak of COVID-19 and any future outbreak of severe acute respiratory syndrome, avian flu or coronavirus in China, or similar adverse public health developments, may disrupt our business and operations and adversely affect our financial results"), and may in turn influence the labor cost. Additionally, certain restrictive measures, including quarantining policies and travel restrictions, implemented by China and other countries in response to the outbreak of COVID-19 may impose obstacles for us to recruit teachers and operational staff suitable for our business, and may in turn influence our labor cost. Such influence, if any, however, remains unclear as of the date of this annual report.

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

We are subject to provisions of the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual reports on Form 20-F. In the course of preparing our consolidated financial statements for the fiscal year ended December 31, 2020, we identified one material weakness in our internal control over financial reporting as of December 31, 2020. In accordance with reporting requirements set forth by the SEC, a "material weakness" is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. We failed to properly address complex accounting issues and related disclosures in accordance with U.S. GAAP, which was caused by our lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP to operate relevant key controls over the financial reporting process. We have implemented a number of measures to address the material weakness that has been identified. However, we can give no assurance that the implementation of these measures will be sufficient to eliminate this material weakness or any other material weakness in our internal control over financial reporting in the future. If we fail to maintain effective internal control over financial reporting in our existing or newly acquired businesses, our management may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. Our failure to maintain effective internal control over financial reporting could result in a loss of investor confidence in the reliability of our reporting processes, which could materially and adversely affect the trading price of our ADSs.

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

***The audit report included in this annual report is prepared by an auditor who is not inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, or the SEC, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditors are not currently inspected by the PCAOB. This lack of PCAOB inspections in China prevents the PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

On May 24, 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission, or the CSRC, and the Ministry of Finance, or the MOF, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. It appears that the PCAOB continues to be in discussions with the PRC regulators to permit joint inspections in China of audit firms that are registered with PCAOB in relation to the audit of the PRC companies that trade on U.S. exchanges. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. The joint statement reflects a heightened interest in this issue. However, it remains unclear what further actions the SEC and PCAOB will take and its impact on the PRC companies listed in the U.S.

On June 4, 2020, the U.S. President issued a memorandum ordering the President's Working Group on Financial Markets, or the PWG, to submit a report to the President within 60 days of the memorandum that includes recommendations for actions that can be taken by the executive branch and by the SEC or PCAOB on Chinese companies listed on U.S. stock exchanges and their audit firms, in an effort to protect investors in the U.S. On August 6, 2020, the PWG released a report recommending that the SEC take steps to implement the five recommendations outlined in the report. In particular, to address companies from jurisdictions that do not provide the PCAOB with sufficient access to fulfill its statutory mandate, or "Non-Cooperating Jurisdictions" (NCJs), the PWG recommends enhanced listing standards on U.S. stock exchanges. This would require, as a condition to initial and continued exchange listing, PCAOB access to work papers of the principal audit firm for the audit of the listed company. Companies unable to satisfy this standard as a result of governmental restrictions on access to audit work papers and practices in NCJs may satisfy this standard by providing a co-audit from an audit firm with comparable resources and experience where the PCAOB determines it has sufficient access to audit work papers and practices to conduct an appropriate inspection of the co-audit firm. The report permits the new listing standards to provide for a transition period until January 1, 2022 for listed companies. If we fail to meet the new listing standards before the deadline specified thereunder due to factors beyond our control, we could face possible de-listing from the Nasdaq, deregistration from the SEC and/or other risks, which may materially and adversely affect, or effectively terminate, our ADS trading in the United States.

Inspections of other firms that the PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

On May 20, 2020, the U.S. Senate passed S. 945, the Holding Foreign Companies Accountable Act, or the HFCAA. The HFCAA was approved by the U.S. House of Representatives on December 2, 2020. The HFCAA was signed into law by the president of the United States on December 18, 2020. In essence, the HFCAA requires the SEC to prohibit foreign companies from listing securities on U.S. securities exchanges if a company retains a foreign accounting firm that cannot be inspected by the PCAOB for three consecutive years, beginning in 2021. The enactment of the HFCAA and any additional rulemaking efforts to increase U.S. regulatory access to audit information in China could cause investor uncertainty for affected SEC registrants, including us, the market price of our ADSs could be materially adversely affected, and we could be delisted if we are unable to meet the PCAOB inspection requirement in time. Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could increase uncertainty for affected issuers, including us, and the market price of our ADSs could be adversely affected.

Furthermore, there have been recent media reports on deliberations within the U.S. government regarding potentially limiting or restricting PRC-based companies from accessing U.S. capital markets. If any such deliberations were to materialize, the resulting legislation may have material and adverse impact on the stock performance of PRC-based companies listed in the U.S.

***Recent litigation and negative publicity surrounding China-based companies listed in the United States.***

The ADSs prices of the companies that are listed in the United States with their business located in China have been negatively impacted by the recent litigation and negative publicity. Recently, there have been some media reports of discussions within the U.S. government about potentially limiting or restricting PRC-based companies' access to U.S. capital markets. The SEC and the PCAOB issued a joint statement reiterating the disclosure, financial reporting and other risks involved in the investments in companies headquartered in emerging markets, and the related limited remedies on April 21, 2020. In addition, after reviewing corporate governance practices, related party transactions, sales practices and financial statements of China-based companies, several equity-based research organizations have recently issued reports on these companies, which have led to special investigations and listing suspensions on U.S. national exchanges. If we become the subject of any similar scrutiny, it could lead to a decline in the market price of our ADSs, divert management resources and effort, increase expenses to defend ourselves against rumors, and increase the premiums we pay for director and officer insurance, regardless of its lack of merit.

***If additional remedial measures are imposed on the Big Four PRC-based accounting firms, including our independent registered public accounting firm, in the administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC with respect to requests for the production of documents, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934.***

Starting in 2011, the PRC affiliates of the “big four” accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and PRC law. Specifically, for certain U.S. listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the PRC accounting firms access to their audit work papers and related documents. The firms were, however, advised and directed that under China law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the PRC affiliates of the “big four” accounting firms, including our independent registered public accounting firm. A first instance trial of the proceedings in July 2013 in the SEC’s internal administrative court resulted in an adverse judgment against the PRC accounting firms. The administrative law judge proposed penalties on the firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the PRC accounting firms reached a settlement with the SEC whereby the proceedings were stayed. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents would be made to the CSRC. The PRC accounting firms would receive matching requests to those made under Section 106 of the Sarbanes-Oxley Act of 2002, and would be required to abide by a detailed set of procedures with respect to such requests, which in substance would require them to facilitate production via the CSRC. The CSRC for its part initiated a procedure whereby, under its supervision and subject to its approval, requested classes of documents held by the accounting firms could be sanitized of problematic and sensitive content so as to render them capable of being made available by the CSRC to US regulators.

Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice at the end of four years from the date of the settlement on February 6, 2019. Despite the proceedings have finally been concluded, it is presumed that all parties will continue to apply the same procedures, where the SEC will continue to make its requests to the CSRC for the production of documents, and the CSRC will process those requests applying the sanitization procedure. We cannot predict whether, in cases where the CSRC does not authorize production of requested documents to the SEC, the SEC will further challenge the four PRC-based accounting firms’ compliance with U.S. law. If additional challenges are imposed on the PRC affiliates of the “big four” accounting firms, we could be unable to timely file future financial statements in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, companies listed in the United States with major operations in China may find it difficult or impossible to retain auditors in respect of their operations in China, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies, and the market price of our ADSs may be adversely affected.

If the PRC affiliate of our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act, as amended. Such a determination could ultimately lead to the delisting of our ADSs from the Nasdaq Global Market, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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

We believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for the taxable year ended December 31, 2020. PFIC status is tested each year and depends on the composition of our assets and income and the value of our assets from time to time. Since we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets and, since the value of our assets is to be determined in large part by reference to the market prices of our ADSs and common shares, which is likely to fluctuate over time, there can be no assurance that we will not be a PFIC for any future taxable year.

We note that the portion of our assets that consisted of cash and other passive assets was more significant during the period between our sale of ATA Online Business in 2018, and our acquisition of the 100% equity interest in Huanqiyimeng in 2019, than before or after this period, although we believe this did not result in our becoming a PFIC for either the taxable year ended December 31, 2018 or the taxable year ended December 31, 2019. There is a change of business exception to PFIC status that, in general terms, applies if a foreign corporation otherwise would be a PFIC for a year because it has disposed of one or more active businesses, so long as the foreign corporation is not a PFIC during the two succeeding years, and that might apply to us if we were found to have been a PFIC for either (but not both) of the taxable years ended December 31, 2018 and December 31, 2019. There is limited guidance as to the application of this exception, including regulations that were promulgated in July 2019 and became effective in January 2021, and it is unclear whether this exception would apply to us, if it were determined, absent this exception, that we were a PFIC for either the taxable year ended December 31, 2018 or the taxable year ended December 31, 2019.

***If we are deemed an “investment company” under the Investment Company Act of 1940, it would adversely affect the price of our ADSs and ordinary shares and could have a material adverse effect on our business.***

As part of our business strategy, we previously made strategic investments in complementary businesses and are still exploring potential investment targets in order to expand our service offerings into new markets. See Item 3.D. “Key Information — Risk Factors — Risks Relating to Our Business — We may face challenges and risks in connection with our strategic investments and acquisitions as well as forming joint ventures, including producing the intended benefits or synergies, identifying suitable opportunities and integrating acquired or new businesses and assets with our existing operations, which could interrupt our business operations or adversely affect our results of operations.” These investments may be deemed to be “investment securities” within the meaning of the Investment Company Act of 1940, as amended (the Investment Company Act). We may be deemed to be an “investment company” as defined under the Investment Company Act based on the value of the investment securities we hold in relation to our total assets and on other factors relevant to the definition of “investment company” under the Investment Company Act.

As an issuer not organized under the laws of the United States, we are not eligible to register as an investment company under the Investment Company Act without an order from the SEC permitting such registration. Because such registration orders are rarely obtained, if we are deemed to be an “investment company” we would either have to obtain an exemption from the SEC, or rely on an existing exemption, waiving registration and compliance generally from the Investment Company Act. Alternatively, we would have to modify our contractual rights or dispose of certain investments in order to fall outside the definition of an investment company in the first instance. On an ongoing basis, we may be required to forego potential future acquisitions of interests in certain companies if those interests were deemed to be “investment securities” and such acquisition or acquisitions would cause us to come within the definition of “investment company.” Failure to avoid being deemed an investment company under the Investment Company Act coupled with our inability as a foreign private issuer to register under the Investment Company Act could make us unable to comply with our reporting obligations as a public company in the United States and lead to our being delisted from the Nasdaq Global Market, which would have a material adverse effect on the liquidity and value of our ADSs and common shares. We would also be unable to raise capital through the sale of securities in the United States or to conduct business in the United States. In addition, we may be subject to SEC enforcement actions or civil litigation for alleged violations of U.S. securities laws. Defending ourselves against any such enforcement action or lawsuits would require significant attention from our management and divert resources from our existing businesses and could have a material adverse effect on our results of operations and financial condition.

#### **Risks Relating to Regulations of Our Business**

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

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006 and was revised in June 22, 2009. The M&A Rule, among other things, requires that an offshore company controlled by PRC companies or individuals that has acquired a PRC domestic company for the purpose of listing the PRC domestic company’s equity interest on an overseas stock exchange must obtain the approval of the CSRC prior to the listing and trading of such offshore company’s securities on an overseas stock exchange. On September 21, 2006, the CSRC, pursuant to the M&A Rule, published on its official website procedures specifying documents and materials required to be submitted to it by offshore companies seeking CSRC approval of their overseas listings.

Our PRC counsel, Jincheng Tongda & Neal Law Firm, advised us that CSRC approval was not required for our initial public offering in February 2008 because the CSRC approval required under the M&A Rule only applies to an offshore company that has acquired a domestic PRC company for the purpose of listing the domestic PRC company's equity interest on an overseas stock exchange, while (i) we obtained our equity interest in each of our PRC subsidiaries by means of direct investment other than by acquisition of the equity or assets of a PRC domestic company in 2008, (ii) our former contractual arrangements with ATA Online (see "Item 7.B. Major Shareholders and Related Party Transactions—Related Party Transactions." for more details) did not constitute the acquisition of ATA Online, (iii) the M&A Rule did not apply to the acquisition by ATA Learning, which had been a wholly foreign owned enterprise since incorporation until it was reformed into a PRC domestic company in 2018, and (iv) although Article 11 of the M&A Rule prohibits the circumvention of the M&A Rule through establishing foreign-invested enterprises, or FIEs, ATA Learning was established in 2003 before the M&A Rule was promulgated, which makes this acquisition not a circumvention of the M&A Rule. However, if it is determined that CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, or take other actions that could have a material adverse effect on our business, financial condition, and results of operations, reputation and prospects, as well as the trading price of our ADSs.

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

We have adopted a holding company structure, and our holding companies rely on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for their cash requirements, including the funds necessary to service any debt we may incur or financing we may need for operations other than through our Chinese subsidiaries. Chinese legal restrictions permit payments of dividends by our Chinese subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC GAAP. Our Chinese subsidiaries are also required under Chinese laws and regulations to allocate at least 10% of their after-tax profits determined in accordance with PRC GAAP to statutory reserves until such reserves reach 50% of the company's registered capital. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. As of December 31, 2020, our Chinese subsidiaries allocated RMB 25.7 million (\$3.9 million) to the general reserve fund, which is restricted for distribution to the Company. We are in full compliance with PRC laws and regulations relating to such allocations. Any limitations on the ability of our Chinese subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

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

Effective from January 1, 2008 and amended on February 24, 2017 and December 29, 2018, the PRC Enterprise Income Tax Law, or the EIT Law, imposes a tax rate of 25% on all enterprises, including foreign-invested enterprises, and terminates many of the tax exemptions, reductions and preferential treatments available under previous tax laws. Under the EIT Law, qualified "high-and-new technology enterprises eligible for key support from the State," or HNTE, are entitled to a preferential income tax rate of 15%, subject to an annual self-assessment review during the valid period of their HNTE certificates. If an HNTE enterprise does not satisfy the related requirements stipulated by the State Administration of Taxation, or SAT, to enjoy the preferential income tax rate of 15% during the annual self-assessment review, it will not be able to implement the preferential income tax rate for the tax year being assessed.

In December 2008, ATA Education Technology (Beijing) Limited, or ATA Education (formerly known as ATA Testing Authority (Beijing) Limited, or ATA Testing) obtained an HNTE certificate with a valid period of three years retrospectively starting from January 1, 2008 and renewed the certificate in 2011, 2014, and 2017 for another three years, respectively. As a result, ATA Education was entitled to a preferential income tax rate of 15% for calendar years 2008 through 2019. In December 2020, ATA Education received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2020 to December 31, 2022. In December 2009, Muhua Shangce Learning Data & Technology (Beijing) Limited, or Muhua Shangce, formerly known as ATA Learning Data & Technology (Beijing) Limited, or ATA Data, and Beijing Jindixin Software Technology Limited, or Beijing JDX, obtained an HNTE certificate with a valid period of three years retrospectively starting from January 1, 2009 and renewed the certificate in 2012, 2015, and 2018 for another three years, respectively. As a result, Muhua Shangce was entitled to a preferential income tax rate of 15% for calendar years 2009 through 2020. Muhua Shangce is in the process of renewing its HNTE certificate. In the event Muhua Shangce is unable to renew its HNTE certificate, it will be subject to the standard statutory enterprise income tax rate of 25% after 2020. In the event ATA Education and Muhua Shangce are unable to meet all of the requirements stipulated by the SAT to enjoy the preferential income tax rate of 15% during the annual self-assessment review when holding the HNTE certificate or fail to renew their HNTE certificates, they will be subject to the standard statutory enterprise income tax rate of 25%. We cannot assure you that ATA Education and Muhua Shangce will continue to qualify as HNTEs after the expiration of their HNTE certificates, or that the local tax authorities will not, in the future, change their position and revoke any of our past preferential tax treatments.

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

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

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

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

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

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

In order to execute our business strategy, we must invest funds in our Chinese subsidiaries and consolidated variable interest entity through loans or capital contributions. Under applicable Chinese laws, any loan made by us to ATA Education and Huanqiyuimeng, each a foreign-invested enterprise, 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. According to a notice issued by the People’s Bank of China regarding foreign debt on January 11, 2017, the maximum amount of foreign debt that each of our PRC subsidiaries or consolidated variable interest entity or other PRC domestic entities is allowed to borrow is two times of their respective net assets. Pursuant to this notice and other PRC laws and regulations regarding foreign debt, within a one-year grace period starting from January 11, 2017, the statutory limit for the total amount of foreign debt of a foreign-invested company, which is subject to its own election, is either the difference between the amount of total investment and the amount of registered capital as approved by the Ministry of Commerce or its local counterpart, or two times of their respective net assets. With respect to our consolidated variable interest entity or other domestic PRC entities, the limit for the total amount of foreign debt is twice of their respective net assets.

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

In June 2016, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming and Standardizing the Administrative Provisions on Capital Account Foreign Exchange Settlement, or SAFE Circular No. 16, which removed certain restrictions previously provided under several SAFE circulars, including the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises, or SAFE Circular No. 142, in respect of conversion by a foreign-invested enterprise of foreign currency registered capital into RMB and the use of such RMB capital. However, SAFE Circular No. 16 continues to prohibit a foreign-invested enterprise from, among other things, using RMB funds converted from its foreign exchange capital for expenditure beyond its business scope, and providing loans to non-affiliated enterprises except as permitted in the business scope. On October 23, 2019, the SAFE promulgated the Notice for Further Advancing the Facilitation of Cross-border Trade and Investment, or the SAFE Circular 28, which, among other things, allows all foreign-invested companies to use RMB converted from foreign currency-denominated capital for equity investments in China, as long as the equity investment is genuine, does not violate applicable laws, and complies with the Special Administrative Measures for Access of Foreign Investment (Negative List). However, since the SAFE Circular 28 is newly promulgated, it is unclear how SAFE and competent banks will carry this out in practice.

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

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

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

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



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

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

***Our training centers may be characterized as private schools and thus be required to obtain private school operating permits, and failure to obtain such permits may materially and adversely affect our business operations.***

Under the Law for Promoting Private Education, private education institutions established under the PRC law are included in the category of “private schools”. Our training centers may be characterized as private schools. According to the Law for Promoting Private Education, private schools are required to obtain operating permits from the PRC education authorities for carrying out educational activities, therefore, our training centers may be required to obtain private school operating permits by the regulators. As of the date of this annual report, some of our training centers have not obtained private school operating permits. Such training centers may be subject to various penalties, including fines, orders to promptly rectify the non-compliance, or if the non-compliance is deemed serious by the regulators, such training centers may be ordered to return course and service fees collected and pay a multiple of the amount of returned course and/or service fees to regulators as a penalty or may even be ordered to cease operations. If this occurs, our business, results of operations and financial condition could be materially and adversely affected.

However, according to the Draft Amended Implementation Rules, which further classifies private training institutions, a private training institution for language, arts, sports, science and technology teaching and a private training institution for adults for cultural education or non-academic continuing education can directly apply for registration with local SAMR without obtaining private school operating permits. As advised by our PRC counsel, if the abovementioned Draft Amended Implementation Rules is enacted as proposed, our training centers will not be required to obtain private school operating permits from the PRC education authorities. However, as the Draft Amended Implementation Rules is still in draft form, there can be no assurance that it will be enacted as proposed or at all, and there are also uncertainties as to the interpretation and implementation by the relevant authorities.

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

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

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

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources. Although the Chinese economy has been transitioning from a planned economy to a more market-oriented economy since the late 1970s, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China’s economic growth through the allocation of resources, controlling the incurrence and payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Changes in any of these policies, laws and regulations could adversely affect the overall economy in China or the prospects of the industries in which we operate, which could harm our business. Additionally, the outbreak of COVID-19 may have a material adverse impact on the overall economic outlook, economic growth and business sentiment in China (see “Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in the People’s Republic of China— The outbreak of COVID-19 and any future outbreak of severe acute respiratory syndrome, avian flu or coronavirus in China, or similar adverse public health developments, may disrupt our business and operations and adversely affect our financial results”), and may in turn influence the operation of 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. A significant further deterioration in such relations could have negative effects on the Chinese economy and lead to changes in governmental policies that would be adverse to our business interests.

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

Unlike common law systems, the Chinese legal system is based on written statutes and decided legal cases have little precedential value. Since 1979, the Chinese government has promulgated a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has been to significantly enhance the protections afforded to various forms of foreign investment in China. Each of our Chinese operating subsidiaries, ATA Education and Huanqiyuimeng, is a foreign investment enterprise, which is an enterprise incorporated in China and wholly or partially owned by foreign investors, and is subject to laws and regulations applicable to foreign investment in China in general and laws and regulations applicable to wholly or partially foreign-owned enterprises in particular. Relevant Chinese laws, regulations and legal requirements may change frequently, and their interpretation and enforcement involve uncertainties. In addition, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since Chinese administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. Such uncertainties, including the inability to enforce our contracts and intellectual property rights, could materially and adversely affect our business and operations. Accordingly, we cannot predict the effect of future developments in the Chinese legal system, 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. For example, on March 15, 2019, the National People's Congress promulgated the Foreign Investment Law, effective from January 1, 2020 and replacing the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law. As it is relatively new, uncertainties still exist in relation to its interpretation and implementation, and failure to take timely and appropriate measures to comply with the Foreign Investment Law and relevant rules could result in material and adverse effects on us. For instance, although the Foreign Investment Law does not explicitly classify contractual arrangements as a form of foreign investment, it contains a catch-all provision under the definition of "foreign investment," which includes investments made by foreign investors in China through means stipulated by laws or administrative regulations or other methods prescribed by the State Council of the People's Republic of China, or the State Council. Therefore, it still leaves leeway for future laws, administrative regulations or provisions to be promulgated by the State Council to provide for contractual arrangements as a form of foreign investment, at which time it will be uncertain whether our contractual arrangements will be deemed to be in violation of the market access requirements for foreign investment in China and, if so, how our contractual arrangements will be dealt with. In addition, if future laws, administrative regulations or provisions to be prescribed by the State Council mandate further actions to be taken by companies with respect to existing contractual arrangements, we may face substantial uncertainties as to whether we can complete such actions in a timely manner, or at all. In the worst case scenario, we may be required to unwind our existing contractual arrangements and/or dispose of the relevant business operations, which could have a material and adverse effect on our current corporate structure, corporate governance, business, financial condition and results of operations. Additionally, on December 12, 2019, State Council promulgated the Implementation Rules of Foreign Investment Law, effective from January 1, 2020. Substantial uncertainties exist with respect to how the relevant government authorities will interpret and implement such rules in practice, which may incur additional costs for us to comply with such rules.

***Restrictions on currency exchange may limit our ability to utilize our cash generated from sales of our services effectively and the ability of our Chinese subsidiaries to obtain financing.***

Majority of our revenues and operating expenses are denominated in Renminbi. Restrictions on currency exchange imposed by the Chinese government may limit our ability to utilize cash generated from sales of our services 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. Cash generated from sales of our services in China can be converted into foreign currency to pay salaries of employees located outside of China upon the employee completing certain registration procedures. Cash generated from sales of our services in China can also be used to pay off debt generated outside of China, provided that the Company complies with the applicable foreign debt registration or approval requirements. Although the Renminbi has been fully convertible for current account transactions since 1996, we cannot assure you that the relevant Chinese government authorities will not limit or eliminate our ability to purchase and retain foreign currencies for current account transactions in the future.

Conversion of Renminbi into foreign currencies and of foreign currencies into Renminbi for payments relating to "capital account transactions," which include, among other things, investments, loans and acquisitions of land and other fixed assets overseas, generally requires the approval of SAFE and other relevant Chinese governmental authorities. Restrictions on the convertibility of Renminbi for capital account transactions could affect the ability of our Chinese subsidiaries to make investments overseas or to obtain foreign currency 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 majority of our revenues and expenditures are denominated in Renminbi, fluctuations in the exchange rate between U.S. dollar and Renminbi will affect our balance sheet and earnings per share in U.S. dollars. In addition, appreciation or depreciation in value of the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. Fluctuations in exchange rate will also affect the relative value of any dividends we issue that are exchanged into U.S. dollars and the earnings from and the value of any U.S. dollar-denominated investments we make in the future.

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions and China's foreign exchange policies. It is difficult to predict how economic conditions, or PRC or U.S. government policy, in particular, the outbreak of trade war between PRC and U.S. and the imposition of additional tariffs on goods sold to each other beginning in 2018, may impact the exchange rate between the Renminbi and the U.S. dollar in the future. The People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by Chinese exchange control regulations that restrict our ability to convert Renminbi into foreign currency.

***Our ability to provide our creative arts related international educational services may be subject to significant limitations or may otherwise be materially and adversely affected by changes in PRC laws and regulations.***

The principal regulations governing private education in China are the Law for Promoting Private Education (as amended by the Standing Committee of the National People's Congress December 29, 2018), or the Amended Private Education Law, which replaced the Law for Promoting Private Education (2016), and the Implementation Rules for the Law for Promoting Private Education (2004), or the Implementation Rules (2004), the amendment to which is currently under review by the State Council. The implementation of the Amended Private Education Law is still in a transition period pending the promulgation of the amendment to the Implementation Rules (2004) and the adoption of local regulations by each province in China. Thus, the private education service providers in China, including us, are now in a transition period for re-registration according to the Amended Private Education Law and its Implementation Rules and other relevant regulations.

On August 10, 2018, the Ministry of Justice published for public comment a draft of the amended Implementation Rules for the Law for Promoting Private Education, or the Draft Amended Implementation Rules, which has been submitted by the Ministry of Education to the State Council for approval. As of the date of this annual report, the Draft Amended Implementation Rules are still pending for approval. If these rules are signed into law, they would have several impacts on our existing business. For example, the Draft Amended Implementation Rules require private schools providing online diploma-awarding education to hold both a private school operating permit and the relevant internet operating permits. Private educational institutions providing any online training and education services, or technology companies providing any online platform or system supporting such online training and educations, would need to obtain the relevant internet operation permits and file with the government's education department or the government's human resources and social security department at provincial level, and would need to review and record the identities of entities or individuals who apply for access to their online platforms. We provide some of our portfolio training services online but none of them are diploma-awarding and our online courses are delivered through a third-party online platform provider. We have obtained a license for internet information services, or an ICP license, for ATA Intelligent Learning in 2020, but we have not obtained an ICP license for HQYM which delivers some of our courses online. If the Draft Amended Implementation Rules are signed into law, we might be deemed to be "providing online training and education services" even though our online courses are delivered through a third-party online platform provider and hence required to obtain an ICP license. Without such license, our online programs might be suspended, which may materially and adversely affect our business, financial condition and results of operations. It is unclear at the current stage whether further licenses would be required if the Draft Amended Implementation Rules are signed into law.

In addition, the Draft Amended Implementation Rules prohibit any entities that implement collectivization education from gaining control over non-profit schools through mergers and acquisitions, franchise chains, and control agreements. Any agreements between a non-profit private school and its connected party that involve major interests or will be repeatedly performed in a long-term shall be reviewed and audited by the relevant government authorities in terms of necessity, legitimacy and compliance and shall be arm's-length transactions. These and other provisions regarding non-profit private schools, if signed into law, may force all of our training centers, which might be deemed as "private schools," to elect to be for-profit schools, which may substantially restrict our ability to acquire and control non-profit schools and adversely affect our financial condition and results of operations.

On August 17, 2020, the MOE, and other four ministries and commissions promulgated the Opinions on Further Standardization of Education Fee, and the regulation of private education fees has been strengthened. It is stipulated that private schools must publicize the itemized fees and standards at a prominent location in the school and indicate the itemized fees and standards in the admissions brochure and admission notice. Accordingly, students have the right not to make the payment of the fees, if the fees should be publicized are not publicized, or the content of the publicity fail to comply with the relevant policies. In addition, it is further emphasized that sponsors of non-profit schools shall not transfer proceeds generated from operating such schools by way of related party transactions that fail to meet the requirements of being open, fair or just, and other service fees charged to our students must be charged based on a reasonable basis and voluntary and non-profit principles. As regards, our operations may be adversely affected if the regulatory authority deems otherwise.

***The outbreak of COVID-19 and any future outbreak of severe acute respiratory syndrome, avian flu or coronavirus in China, or similar adverse public health developments, may disrupt our business and operations and adversely affect our financial results.***

Our financial results, business and operations could be materially and adversely affected by the outbreak of COVID-19, avian influenza, severe acute respiratory syndrome, or SARS, coronavirus or other similar adverse public health developments. In recent years, there have been reports on the occurrences of avian influenza in various parts of China and neighboring countries, including confirmed human cases.

Additionally, in late 2019, there has been an outbreak of respiratory disease caused by COVID-19, which has expanded widely within China and globally. On January 30, 2020, the World Health Organization reportedly declared this COVID-19 outbreak a health emergency of international concern. In March 2020, the World Health Organization declared the COVID-19 a pandemic. Since the COVID-19 outbreak, the PRC government has imposed various strict measures with the aim to contain the virus including, but not limited to, travel restrictions, mandatory quarantine requirements, and postponed resumption of business operations. The outbreak of COVID-19 has adversely affected our business operations in certain aspects. For example, after the outbreak of COVID-19, our training centers were mostly closed down from February 2020 to May 2020 as required by local regulatory authorities. After COVID-19 was gradually under control and following the directives of local governments, most of our training centers had progressively resumed operation by June 2020. As a response to the situation, we have implemented certain practical plans, including converting some of our offline courses to online courses and delivering them to students through third-party platforms since February 2020.

However, as the COVID-19 continues to pose a serious public health threat to countries and territories all over the world as of the date of this annual report, a number of countries and territories have implemented quarantining policies and travel restrictions from and to seriously affected cities or areas. Those measures, though temporary in nature, may continue and increase depending on developments in the coronavirus outbreak. Although our students with any on-campus training have been given the option to take their classes online since the COVID-19 outbreak, some of them prefer the traditional classroom format and have postponed their training, which have adverse impact on our revenues to be recognized from portfolio training services. Enrollment from offline training centers have also been adversely affected due to the aforementioned temporary closure of training centers mainly for the first half of the year. In addition, our ability to deliver our services, particularly our overseas related travel services, was adversely impacted and the losses for cancellation of pre-determined tours was increased. Some students have delayed or cancelled their overseas study or travel plans due to these restrictive measures or safety considerations, and thus the demand for our services, especially demand for our overseas related travel services and overseas study counselling services was decreased, which has adversely affected our business, financial performance and results of operations. In addition, due to limited offline sales and marketing activities and less referrals from overseas study agents since the outbreak of COVID-19, we have to rely more on internal referrals, search engine marketing and other online marketing, which has to some extent increased our online marketing costs mainly for the first half of the year.

We have adopted a written policy to guide our employees in response to the outbreak of COVID-19 in January 2020. We are uncertain as to when the outbreak of COVID-19 will be completely controlled in China and globally, and the prolonged adverse effects of COVID-19 and any other adverse public health developments may result in the possibility of the closure of our training centers or our offices again while we remain obligated to pay rent and other expenses for these facilities, the quarantining of infected or potentially infected students, teachers, or employees and the disinfection of the affected properties along with the temporary suspension of our operations, or the cancellation or deferments of student enrollment to avoid the spread of disease. We are closely monitoring the development of the COVID-19 pandemic and continuously evaluating any further potential impact on our business, results of operations and financial condition, which we believe will depend on the duration and degree of the pandemic. If the outbreak persists or escalates without being effectively controlled in the future, our business operations and financial performance may be materially and adversely affected as a result of various factors, such as changes in general economic outlook, slowdowns in economic growth and negative business sentiment, and measures taken by government authorities which may restrict our operations in China and abroad.

***Our business, financial performance and results of operations may be adversely affected by deterioration of the relation between China and the United States.***

Recent international trade disputes, including those between the United States and China, and the uncertainty created by these disputes could seriously destabilize the global and Chinese economies, which could be detrimental to our business. Any escalation of existing trade tensions or the emergence of a trade war, or news and rumors of a potential trade war escalation, could affect consumer confidence, which could adversely affect our business, results of operations and ultimately the trading price of our ADSs.

As a result of the outbreak of COVID-19, the passage of Hong Kong national security legislation by China's National People's Congress, the imposition of sanctions by the U.S. Treasury Department on certain officials of the Hong Kong Special Administrative Region and China's central government, an executive order issued by the President of the United States in August 2020 prohibiting certain transactions with ByteDance Ltd. and Tencent Holdings Ltd. and the respective subsidiaries of these companies, and China's Ministry of Commerce released Provisions on the Unreliable Entity List in response to United States sanctions, political tensions between the United States and China have escalated. An increase in political tensions could reduce the level of trade, investment, technology exchanges and other economic activity between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. Any of these factors could have a material adverse effect on our business, financial performance and results of operations. Such tense relation may also discourage U.S. persons and organizations to work for, provide services to or cooperate with Chinese companies, which could make it difficult for us to hire or retain qualified personnel and find suitable partners for our business. The regulations adopted by either government of United States or China could negatively affect certain investors' willingness to invest in or hold our ADSs, consequently may have a negative influence on the trading price of our ADSs. If any such deliberations or policies were to materialize, there might also be material adverse effect on the stock performance of China-based companies listed in the United States.

***Refunds or potential refund disputes of our course fees may negatively affect our business, financial condition and results of operations.***

Students make prepayments of course or service fees to us for most of our program offerings, for which they may request refund later. Our refund policy varies for different programs and is generally based on a number of factors, including the total length of the course or service to provide, progress of the course or service when the refund request is made, among other things. Although we have not experienced any significant refund requests for prepaid course or service fees in the past, if an increasing number of students request refunds, our cash flows, revenues and results of operations may be materially and adversely affected. A high volume of refunds and refund disputes may also generate negative publicity that could harm our reputation.

**Risks Relating to Our Corporate Structure**

***If the PRC government deems our contractual arrangements relating to our variable interest entity do not comply with PRC regulatory restrictions on foreign investment in certain industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.***

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Xiaofeng Ma and Mr. Jun Zhang are the shareholders of ATA Intelligent Learning. Mr. Xiaofeng Ma is our chairman and chief executive officer, and Mr. Jun Zhang is our president. The shareholders of ATA Intelligent Learning may have potential conflicts of interest with us. These shareholders may breach, or cause ATA Intelligent Learning to breach, or refuse to renew, the existing contractual arrangements we have with them, and which would materially and adversely affect our ability to effectively control ATA Intelligent Learning, and hence enjoy substantially all the economic benefits received by ATA Intelligent Learning. For example, the shareholders may cause our agreements with ATA Intelligent Learning to not be performed or be performed in a manner adverse to us by, among other things, failing to remit payments due to us under the contractual arrangements on a timely basis. We cannot assure you that when conflicts of interest arise, either of these shareholders will act in the best interests of our company or that such conflicts will be resolved in our favor.

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

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

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

Moreover, the PRC tax authorities may impose punitive interest on ATA Intelligent Learning for adjusted taxes according to the applicable regulations. Our financial position could be materially and adversely affected if ATA Intelligent Learning’s tax liabilities increase or if they are required to pay punitive interest.

***Recently introduced economic substance legislation of the Cayman Islands may impact us and our operations.***

Pursuant to the International Tax Cooperation (Economic Substance) Act (2020 Revision) of the Cayman Islands, or the ES Act, a “relevant entity” carrying on a relevant activity is required to satisfy the economic substance test set out in the ES Act. A “relevant entity” includes an exempted company incorporated in the Cayman Islands as is ATA Creativity Global. Based on the current interpretation of the ES Act, we believe that our company, ATA Creativity Global, is a pure equity holding company since it only holds equity participation in other entities and only earns dividends and capital gains. Accordingly, for so long as our company, ATA Creativity Global, is a “pure equity holding company”, it is only subject to the minimum substance requirements, which require us to (i) comply with all applicable filing requirements under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (“the Companies Act”); and (ii) have adequate human resources and adequate premises in the Cayman Islands for holding and managing equity participations in other entities. However, there can be no assurance that ATA Creativity Global will not be subject to more requirements under the ES Act. Although it is presently anticipated that the ES Act will have little material impact on us and our operations, as the legislation is new and remains subject to further clarification and interpretation, it is not currently possible to ascertain the precise impact of such legislation on us and our operations.

***The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.***

Under the PRC law, legal documents for corporate transactions, including agreements and contracts such as the leases and business contracts, are executed using the chop or seal of the signing entity or with the signature of a legal representative, whose designation is registered and filed with the relevant local branch of the market supervision administration.

For the purpose of maintaining the security of our chops and the chops of our PRC entities, we have established internal control procedures and rules for using these chops and seals and we generally store these items in secured locations accessible only by the authorized personnel of each of our PRC subsidiary and our VIE company. Even with all procedures aforementioned, we cannot guarantee that such procedures will prevent all instances of abuse or negligence. If any of our authorized personnel misuses or misappropriates the chops or seals of our PRC entities, or such chops or seals are not kept safely, stolen or otherwise used by unauthorized persons or for unauthorized purposes, it would be difficult to maintain control over the relevant entities and experience significant disruption to our business operations. If a designated legal representative obtains control of the chops in an effort to obtain control over any of our PRC subsidiary or our VIE company, we may need to take legal actions as well as pass new resolutions to regain control of those companies. In addition, there is a risk that we may not be able to recover corporate assets that are sold or transferred out of our control in the event of such a misappropriation if a *bona fide* third party relies on the apparent authority of the representative.

**Risks Relating to Our ADSs**

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

The trading prices of our ADSs are volatile, and this volatility may continue. For instance, between January 1, 2020 and December 31, 2020, our ADS prices as reported on Nasdaq ranged between a low of \$0.612 and a high of \$1.870. Numerous factors that are beyond our control may cause the market price of our ADSs to fluctuate significantly. In particular, the performance and fluctuation of the market prices of other educational services providers with business operations mainly in China that have listed their securities in the United States may affect the volatility in the price of and trading volumes for our ADSs. The trading performance of these Chinese companies’ securities at the time of or after their offerings may affect the overall investor sentiment towards Chinese companies listed in the United States and consequently may impact the trading performance of our ADSs. These broad market and industry factors may significantly affect the market price and volatility of our ADSs, regardless of our actual operating performance.

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



***Techniques employed by short sellers may drive down the market price of our ADSs.***

Public companies listed in the United States that conduct most of their business in China have been the subject of short selling. Short selling refers to the sale of securities that the seller does not own, but rather has borrowed from a third party with the intent of buying back the same securities at a later date to pay back to the lender. The short seller expects to profit from the decline in the value of the security between the sale of the borrowed security and the purchase of the replacement security, because the short seller expects to pay less when he or she purchases than when he or she sells. In the short seller's interest in the falling price of the security, many short sellers publish, or arrange to publish, negative opinions about the issuer and its business prospects after short selling the security in order to create negative market momentum and generate profits for themselves. In the past, these attacks from short sellers have led to a market sell-off of stocks. Much of the scrutiny and negative coverage has focused on allegations of a lack of effective internal controls over financial reporting, which have resulted in financial and accounting irregularities and mistakes, inadequate corporate governance policies or failure to comply with those policies, and in many cases, allegations of fraud. As a result, many of these companies are currently conducting internal and external investigations into these allegations and have been subject to shareholder litigations and/or SEC enforcement actions in the interim.

We may be the subject of adverse allegations from short sellers in the future. Any such allegation may be accompanied by periods of instability in the market price of our ADRs. If we become the subject of any adverse allegation, whether proven to be true or not, we may need to expend significant resources to investigate the allegation and/or defend ourselves. While we will vigorously defend ourselves against any such attack by short sellers, the manner in which we bring a lawsuit against the relevant short sellers may be limited by free speech principles, applicable federal or state laws, or trade secret issues. This situation can be costly and time consuming and may divert our management's attention from growing our business. Even if such allegations ultimately prove unfounded, the allegations against us could have a material impact on our business operations and shareholders' equity, and the value of any investment in our ADRs could be substantially diminished.

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

Although our ADSs are traded on the Nasdaq Global Market, the trading volume of our ADSs has generally been very low. Reported average daily trading volume of our ADSs for the three-month period ended March 31, 2021 was approximately 6,161,575 ADSs. Limited trading volume will subject our ADSs to greater price volatility and may make it difficult for our shareholders to sell their ADSs at a price that is attractive to them, if at all.

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

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

As of April 6, 2021, there were 63.4 million common shares outstanding. In addition, there were issued options to purchase an aggregate of 2,828,290 common shares, including options to purchase an aggregate of 259,166 common shares immediately exercisable as of April 6, 2021. 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, as amended, or the Securities Act, unless held by our "affiliates" as that term is defined in Rule 144 under the Securities Act. If ADSs representing the shares held by our affiliates or that were privately placed are registered for resale or sold in compliance with Rule 144, such sales or the perception of the possibility of such sales may depress the trading prices of our ADSs. In addition, the common shares subject to options for the purchase of our common shares will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, and Rules 144 and 701 under the Securities Act. If these additional shares are sold, or if it is perceived that they will be sold in the public market as ADSs, the trading price of our ADSs could decline.

***We may fail to comply with Nasdaq's minimum bid price requirement or any other listing requirements, although we have regained compliance with Nasdaq listing requirements, and our shares may be delisted if we are unable to regain compliance with Nasdaq rules within the applicable grace periods.***

On May 14, 2020, we received a notification letter (the "Notice") from the Nasdaq Capital Market (the "Nasdaq") advising us that for 30 consecutive business days preceding the date of the Notice, the bid price of the Company's ordinary shares had closed below the minimum \$1.00 per ADS required for continued listing under Nasdaq Listing Rule 5550(a)(2) (the "Minimum Bid Price Rule"). We were provided 180 calendar days to regain compliance with the Minimum Bid Price Rule. On July 9, 2020, we were informed by Nasdaq that we have regained compliance with the minimum bid price requirement under the Listing Rules of The Nasdaq Stock Market as a result of the closing bid price of our ordinary stock having been at \$1.00 per share or greater for at least 10 consecutive business days, from June 22, 2020, to July 6, 2020.

However, it is possible that we may fail to comply with the continued listing requirement of the Nasdaq Marketplace Rule 5550(a)(2) again or any other listing requirements. If so, Nasdaq may delist our shares if we cannot regain compliance timely, even though we may still trade our shares over the Over-the-Counter Bulletin Board (OTCBB) or the pink sheets system.

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

One of our existing shareholders, Mr. Xiaofeng Ma, beneficially owns approximately 39.7% of our outstanding common shares as of April 6, 2021. Accordingly, Mr. Ma has had, and may continue to have, significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, the election of directors and other significant corporate actions. In addition, without the consent of Mr. Ma, we could be prevented from entering into transactions that could be beneficial to us.

In addition, as of the date of this annual report, Mr. Xiaofeng Ma owns substantial equity interest in ATA Online. Mr. Xiaofeng Ma also acts as the chairman of the board of directors of ATA Online. A potential conflict of interest may exist as the businesses of ATA Online may require the time and attention of Mr. Xiaofeng Ma and, as a result, his interest may not be well aligned with the interest of our shareholders.

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

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

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

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 depository. The process of voting through the depository 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 American Depositary Receipts, or ADRs. We do not recognize holders of ADSs representing our common shares as our shareholders; instead, we recognize the ADS depository as our shareholder.

When the depositary receives notice of a shareholders' meeting from us, 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 the receipt of voting instructions of a holder of ADSs, if voting is by poll, the depositary will endeavor to vote the underlying common shares in accordance with these instructions, if voting is by show of hands, the depositary will vote the underlying common shares in accordance with these instructions received from a majority of holders of ADSs who provide voting instructions. You may not receive sufficient notice of a shareholder 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.

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 fourth amended and restated memorandum and articles of association, the Cayman Islands Companies Act and the common law of the Cayman Islands. The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) are made available by the Registrar of Companies in the Cayman Islands for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members. Shareholders of Cayman Islands companies like us have no general rights under the Cayman Islands law to inspect corporate records, or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our fourth amended and restated memorandum and articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. And as a Cayman Islands exempted company, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from the Nasdaq corporate governance requirements, therefore, we may provide less protection to shareholders compared with U.S. domestic issuers.

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 majority of our assets are located outside of the United States. Substantially 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 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 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.

***We have been named as a defendant or interested third party in three lawsuits in connection with our sale of ATA Online, which could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.***

Three lawsuits were filed in connection with our sale of the ATA Online Business, the details of which are described in “Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings”. All of these three lawsuits remain in their early stages and while we do not believe there are any merit to the plaintiffs’ allegations and intend to vigorously defend against these lawsuits, we are currently unable to estimate the possible outcome of such lawsuits. In the event that our initial defense of the lawsuits is unsuccessful, there can be no assurance that we will prevail in any appeal. Any adverse outcome could have a material adverse effect on our business, financial condition, results of operation, cash flows and reputation. The litigation process may utilize a significant portion of our resources and divert management’s attention from our day-to-day operations, either of which could harm our business. Also, as these three lawsuits remain in their early stages and the plaintiffs may revise their claims for damages related to these matters, we cannot predict the impact of these damage claims on our business or financial results.

## ITEM 4. INFORMATION ON THE COMPANY

### A. History and Development of the Company

Our predecessor company, American Testing Authority, Inc., a New York company, began operations in 1999, and in the same year established ATA Testing Authority (Beijing) Limited, or ATA Testing, as a wholly-owned subsidiary in China. On February 18, 2019, ATA Testing changed its company name to ATA Education Technology (Beijing) Limited, or ATA Education. In November 2001, our founders established ATA Testing Authority (Holdings) Limited, or ATA BVI, in the British Virgin Islands. In the following year, American Testing Authority, Inc. merged into ATA BVI and ATA BVI became our holding company.

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. We completed our initial public offering in 2008.

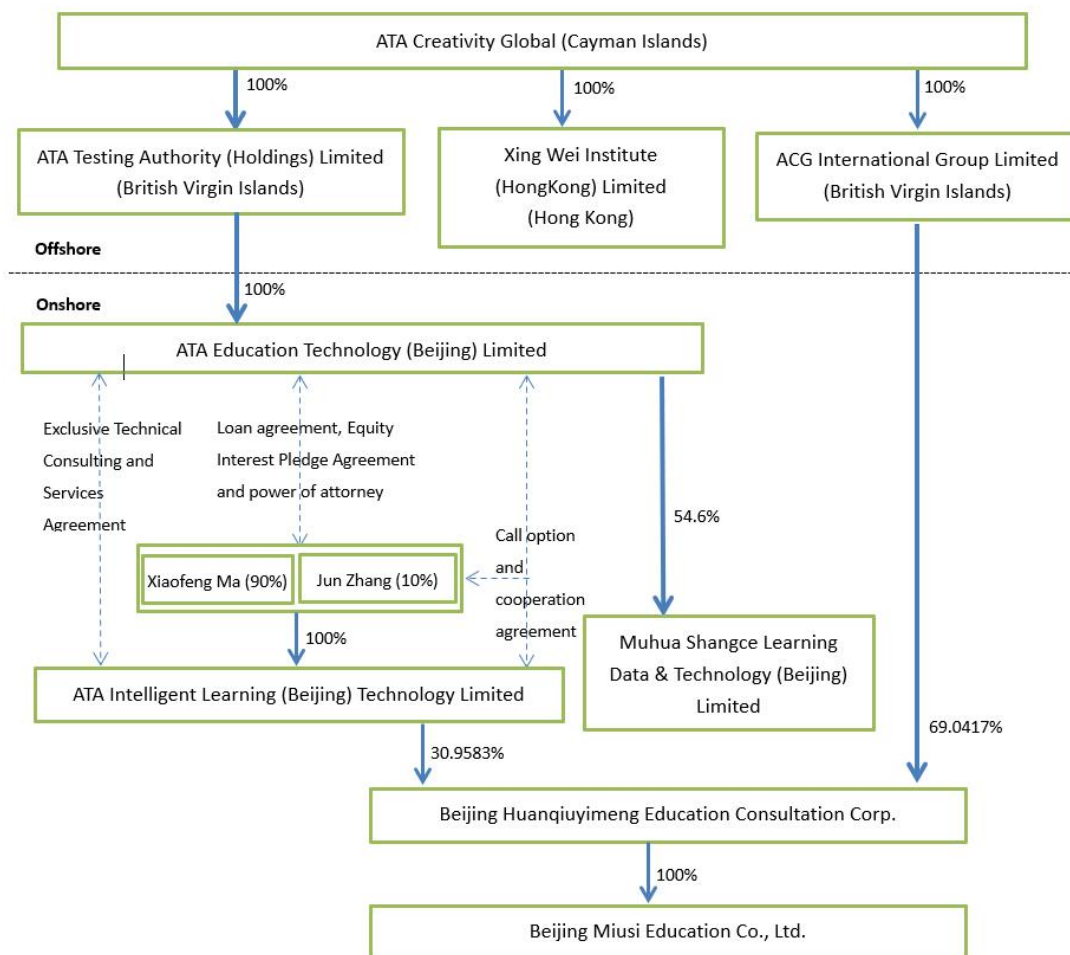
In November 2013, we completed the acquisition of the entire equity interest of Xing Wei Institute (Hong Kong) Limited, or Xing Wei, a private education technology company that provides training solutions as well as online and mobile training platforms for corporations in China. In connection with the listing of our testing service business on the National Equities Exchange and Quotations (also known as the New Third Board), we acquired the entire equity interest of ATA Online in May 2015. In May 2016, ATA Testing acquired from ATA Inc. the entire equity interest of Muhua Shangce Learning Data & Technology (Beijing) Limited, or Muhua Shangce. In June 2017, MOOC-CN Investment and an individual shareholder acquired a total of 20% of the equity interests in Muhua Shangce. In September 2019, MOOC-CN Investment further invested RMB 5.0 million to Muhua Shangce. Immediately following that investment, our equity interest in Muhua Shangce was reduced from 56.0% to 54.6%. In March 2018, we established a Chinese limited liability company, ATA Intelligent Learning, to preserve our flexibility to operate, invest in or hold businesses that are restricted from receiving foreign investments.

On August 16, 2018, we completed the sale of our 100% equity interests in ATA Online (Beijing) Education Technology Co., Ltd., which operate computer-based testing services, online education services and other related services. As a result of the sale of ATA Online, we no longer hold, directly or indirectly, any interest in ATA Online and its subsidiaries. As of the date of this annual report, the sale of the ATA Online Business is being challenged by our two shareholders, the details of which are described in “Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings”.

In 2019, we completed the acquisition of 100% equity interests of Huanquiyimeng, a leading provider of educational services for students in China interested in applying for overseas art study and Beijing Miusi Education Co., Ltd., a wholly owned subsidiary of Huanquiyimeng. On September 13, 2019, we changed our company name from “ATA Inc.” to “ATA Creativity Global” in connection with the Huanquiyimeng Acquisition. On October 17, 2019, we changed the trading symbol for our ADSs listed on the Nasdaq Global Market from “ATAI” to “AACG”.

On December 24, 2019, we completed the private issuance of 5,662,634 common shares to CL-TCC, a company focusing on investments in the cultural and education industry for an aggregate price of US\$10,022,862, or US\$1.77 per share (the “Private Placement”).

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



Notes:

- (1) Huanquiymeng is mainly engaged in providing portfolio training, overseas study counselling and other educational services, among which, portfolio training and overseas study counselling services are delivered through its 19 branches that operate 19 training centers around China.
- (2) Huanquiymeng delivers its services in another 3 training centers in Sichuan province, Chongqing and Dalian through its majority owned subsidiaries, Sichuan Huanquiylilian Education Consultation Co. Ltd., or Sichuan Huanquiylilian, in which Huanquiymeng holds 60% equity interests, Chongqing Huanquiylilian Education Information Consultation Co., Ltd., subsidiary of Sichuan Huanquiylilian, in which Huanquiymeng indirectly holds 54% equity interests, and Dalian Huanquiymeng Education Consultation Co., Ltd., in which Huanquiymeng holds 70% equity interests.
- (3) Beijing Miusi Education Co., Ltd. is mainly engaged in providing research-based learning service programs.
- (4) The nominee shareholders of ATA Intelligent Learning changed from Mr. Xiaofeng Ma (holding 90% equity interests) and Mr. Haichang Xiong (holding 10% equity interests) to Mr. Xiaofeng Ma (holding 90% equity interests) and Mr. Jun Zhang (holding 10% equity interests), the president and a director of the Company, in August 2020. Mr. Haichang Xiong and Mr. Jun Zhang entered into a series of agreements to effect such change, the details of which are described under “Item 4. Information on the Company—A. History and Development of the Company—Contractual Arrangements with ATA Intelligent Learning”.

We are a Cayman Islands exempted company limited by shares, operating under the Companies Act of the Cayman Islands. Our principal executive offices are located at 1/F East Gate, Building No. 2, Jian Wai Soho, No. 39 Dong San Huan Zhong Road, Chao Yang District, Beijing, China, and our telephone number is (86-10) 6518-1133. Our website address is <http://www.atai.net.cn>. The information on our website 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 is CT Corporation System, located at 111 Eight Avenue, New York, New York 10011. The SEC maintains an Internet site at <http://www.sec.gov> that contains electronic reports, proxy and information statements, and other information regarding us and other issuers that file electronically with the SEC. For information regarding our principal capital expenditures, see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures”.

#### **Our Consolidated Variable Interest Entity**

ATA Intelligent Learning was established in March 2018 to preserve our flexibility to operate, invest in or hold businesses that are restricted from receiving foreign investments. We obtained control over ATA Intelligent Learning in March 2018 by entering into a series of contractual arrangements among ATA Education (formerly known as ATA Testing), ATA Intelligent Learning and the shareholders of ATA Intelligent Learning, which we refer to as the ATA Intelligent Learning Agreements. As a result of these contractual arrangements, we became the primary beneficiary of ATA Intelligent Learning in March 2018. We treat ATA Intelligent Learning as our variable interest entity and have consolidated its financial results in our consolidated financial statements in accordance with U.S. GAAP.

The ATA Intelligent Learning Agreements allow us to:

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

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

- the ownership structures of ATA Intelligent Learning and our wholly owned subsidiaries in China are in compliance with existing published PRC laws and regulations;
- our contractual arrangements among our wholly owned subsidiaries in China and ATA Intelligent Learning and its shareholders, are valid and binding, will not result in any material violation of published PRC laws or regulations currently in effect, and are enforceable in accordance with their terms and conditions; and
- the business operations of our company, all of our Chinese subsidiaries and ATA Intelligent Learning, 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 PRC laws and regulations, including the laws and regulations governing the enforcement and performance of our contractual arrangements in the event of imposition of statutory liens, bankruptcy and criminal proceedings. Accordingly, we cannot assure you that the PRC regulatory authorities will not ultimately take a contrary view. If the PRC government finds that the agreements that establish the structure of our operations in China do not comply with PRC government restrictions on foreign investment in our industry, we could be subject to severe penalties. See “Risk Factors – Risks Related to Our Corporate Structure – If the PRC government deems our contractual arrangements with our variable interest entity do not comply with PRC regulatory restrictions on foreign investment in certain industries, or if these regulations or the interpretation of existing regulations change in the future, we could be subject to severe penalties or be forced to relinquish our interests in those operations.”

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

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

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

**Equity Interest Pledge Agreements.** On March 15, 2018, Xiaofeng Ma and Haichang Xiong, both of which were the shareholders of ATA Intelligent Learning, respectively entered into an equity interest pledge Agreement with ATA Education and ATA Intelligent Learning. Pursuant to the equity interest pledge agreements, each of the shareholders of ATA Intelligent Learning has pledged all of his equity interest in ATA Intelligent Learning to guarantee his and ATA Intelligent Learning's performance of obligations under, where applicable, the exclusive technical consulting and services agreement and the call option and cooperation agreement. If ATA Intelligent Learning or the shareholders of ATA Intelligent Learning breach their contractual obligations under these agreements, ATA Education, as pledgee, will have the right to acquire the pledged equity interests. The shareholders of ATA Intelligent Learning agree that, during the term of the equity interest pledge agreements, they will not dispose of the pledged equity interests or create or allow any encumbrance on the pledged equity interests, and they also agree that ATA Education's rights relating to the equity pledge should not be suspended or hampered by the shareholders, their successors or their designees. During the term of the equity interest pledge agreements, ATA Education has the right to receive all of the dividends and profits distributed on the pledged equity. The term of the equity interest pledge agreements shall commence on the date of March 15, 2018 and shall expire on the earlier of (a) the date on which all outstanding secured obligations are paid in full or otherwise satisfied (as applicable); (b) ATA Education enforces the equity interest pledge agreements, pursuant to the terms and conditions, to satisfy its rights regarding the secured obligations and pledged collateral in full, or (c) the shareholders of ATA Intelligent Learning complete their transfer of the equity interest to another party (individual or legal entity) pursuant to the "Call Option and Cooperation Agreement" and no longer hold any equity interests in ATA Intelligent Learning (together with (a) and (b), the "Expiration Conditions"). ATA Intelligent Learning has registered these equity interest pledge agreements with the competent State Administration for Market Regulation (previously known as State Administration for Industry and Commerce, or SAIC), or SAMR, on April 27, 2018. The registration of the equity pledge enables ATA Education to enforce the equity pledges against third parties who acquire the equity interests of ATA Intelligent Learning in good faith. According to the equity transfer agreement entered into by Haichang Xiong and Jun Zhang, on August 12, 2020, Haichang Xiong transferred all his equity interest in ATA Intelligent Learning to Jun Zhang, as well as his obligations and rights under the equity interest pledge agreement entered into by himself. On the same day, Jun Zhang, as the new shareholder of ATA Intelligent Learning, entered into a new equity interest pledge agreement with ATA Education and ATA Intelligent Learning on the same terms as the equity pledge agreement previously entered by Haichang Xiong. The term of the equity interest pledge agreements entered by Jun Zhang shall commence on the date of August 12, 2020 and shall expire on the earlier of the Expiration Conditions. ATA Intelligent Learning has registered the equity interest pledge agreement entered by Jun Zhang with SAMR, on February 26, 2021.

**Powers of Attorney.** On March 15, 2018, Xiaofeng Ma and Haichang Xiong, both of which were the shareholders of ATA Intelligent Learning granted an irrevocable power of attorney to ATA Education. On August 12, 2020, the power of attorney granted by Haichang Xiong to ATA Education terminated as a result of the equity interest transfer by Haichang Xiong to Jun Zhang in ATA Intelligent Learning. On the same day, Jun Zhang, as the new shareholder of ATA Intelligent Learning, granted an irrevocable power of attorney to ATA Education on the same terms as the power of attorney previously granted by Haichang Xiong to ATA Education. Pursuant to the irrevocable powers of attorney granted by Xiaofeng Ma and Jun Zhang to ATA Education, each of the shareholders of ATA Intelligent Learning appointed ATA Education or any eligible person designated by ATA Education as his attorney-in-fact to exercise all voting rights and other shareholder rights of ATA Intelligent Learning, including but not limited to appointing or electing their directors and executive officers. The person designated by ATA Education is entitled to sign the transfer documents necessary for the fulfillment of the exclusive technical consulting and services agreement and the call option and cooperation agreement, and to join the liquidation group and participate in the liquidation of ATA Intelligent Learning. The term of the powers of attorney shall be consistent with the terms of the equity interest pledge agreements and call option and cooperation agreement and shall be extended along with the equity interest pledge agreements and call option and cooperation agreement.

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

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



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

**Call Option and Cooperation Agreement.** On March 15, 2018, ATA Education, ATA Intelligent Learning and Xiaofeng Ma and Haichang Xiong, both of which were the shareholders of ATA Intelligent Learning, entered into a call option and cooperation agreement (the “Prior Call Option and Cooperation Agreement”). On August 12, 2020, the Prior Call Option and Cooperation Agreement terminated as a result of the equity interest transferred by Haichang Xiong to Jun Zhang in ATA Intelligent Learning. On the same day, Jun Zhang, as the new shareholder of ATA Intelligent Learning, together with Xiaofeng Ma, ATA Education and ATA Intelligent Learning entered into a new call option and cooperation agreement on the same terms as the Prior Call Option and Cooperation Agreement. Pursuant to the new call option and cooperation agreement, when permitted by applicable law, ATA Education (or any eligible party designated by ATA Education) shall have the right to acquire, at any time, all of ATA Intelligent Learning’s assets or its share equity owned by the shareholders of ATA Intelligent Learning, at a price equal to the sum of the principal amounts of the loans from ATA Education to the shareholders of ATA Intelligent Learning. If ATA Education elects to purchase a portion of ATA Intelligent Learning’s share equity or assets, the exercise price for such purpose shall be adjusted accordingly based on the percentage of such share equity or assets to be purchased relative to the total share equity or assets. Without the prior written consent of ATA Education, ATA Intelligent Learning may not sell or otherwise dispose of its assets or interests in its business, create or allow any encumbrance on its assets or interests in its business, enter into any material contracts (except those contracts entered into in the ordinary course of business), or distribute dividends to the shareholders. The new call option and cooperation agreement was effective upon the execution date and remain effective thereafter.

**Loan Agreements.** On March 15, 2018, Xiaofeng Ma and Haichang Xiong, both of which were the shareholders of ATA Intelligent Learning, respectively entered into a loan agreement with ATA Education. Pursuant to the loan agreements, ATA Education made loans in an aggregate principal amount of RMB 10.0 million to the shareholders of ATA Intelligent Learning solely for the capitalization of ATA Intelligent Learning. The shareholders of ATA Intelligent Learning can only repay the loans by transferring all their equity interest in ATA Intelligent Learning to ATA Education or its designated persons. In the event that the shareholders of ATA Intelligent Learning transfer their equity interests to ATA Education or its designatee at a price equivalent to or less than the amount of the principal amount of the loans, the loans will be interest free. If the price is higher than the amount of the principal amount of the loan, the excess amount will be paid to ATA Education as loan interest. The maturity date of the loans is on the tenth anniversary of the execution date of the relevant loan agreement. The term of the loans can be extended with the written consent of ATA Education and ATA Intelligent Learning. On March 19, 2019 and April 20, 2019, ATA Education, ATA Intelligent Learning and each of Xiaofeng Ma and Haichang Xiong entered into two supplementary agreements to the ATA Intelligent Learning Agreements, pursuant to which the aggregate principal amount of loans made by ATA Education to the shareholders of ATA Intelligent Learning for the capitalization of ATA Intelligent Learning increased from RMB 10.0 million to RMB 50.0 million with all other terms and conditions under the ATA Intelligent Learning Agreements remain unchanged. On August 12, 2020, the loan agreement entered by Haichang Xiong with ATA Education, and the rights and obligations of Haichang Xiong under the two supplementary agreements terminated as a result of the equity interest transfer by Haichang Xiong to Jun Zhang in ATA Intelligent Learning, and Haichang Xiong repaid his borrowing of RMB 5.0 million under such agreements to ATA Education on August 17, 2020. On August 12, 2020, Jun Zhang, as the new shareholder of ATA Intelligent Learning, entered into a new loan agreement with ATA Education on the same terms as the loan agreement and the two supplementary agreements previously entered by Haichang Xiong and borrowed RMB 5.0 million from ATA Education on August 17, 2020 pursuant to aforementioned loan agreement.

## **B. Business Overview**

### **Overview**

We are an international educational services provider focusing on providing quality international educational experiences related to the cultivation and improvement of students’ creativity. Currently, our principal product and service are portfolio training services which we provide to students in China who are interested in studying art overseas. We believe we are one of the leading players in the portfolio training market in many regards, including geographic coverage, product breadth and student enrollment, among others. To achieve our one-stop service strategy, we also provide research-based learning services, overseas study counselling services, in-school art classes through cooperation with high schools, foreign language training services, junior art education and other services to our students. We have successfully helped approximately ten thousand students in China gain entry into art universities and colleges in the U.S., UK, Europe, Japan, Australia and other countries as of December 31, 2020, among which quite a few gained entry into top art universities and colleges in these countries. While working on developing new international education related products and services, we are also exploring acquisition opportunities in the international education sector to broaden our product spectrum.

For the fiscal year ended December 31, 2020, we had approximately 3,800 students enrolled, of which 56.6% were enrolled in our portfolio training programs and the remainder were enrolled in our other programs. We deliver educational services to students primarily through our extensive network of training centers in China.

Our total net revenues for the fiscal year ended December 31, 2020 were RMB 62.2 million (\$24.9 million). Net revenues from our portfolio training services, research-based learning services, overseas study counselling services, other educational services, K-12 education assessment and other services accounted for 69.8%, 2.7%, 13.0%, 12.4% and 2.1% of our total net revenues in the fiscal year ended December 31, 2020. Our total netloss for the fiscal year ended December 31, 2020 was RMB100.6 million (\$15.4 million). For the fiscal year ended December 31, 2019, our total net revenues were RMB 97.8 million, mainly derived from our portfolio training services, research-based learning services, overseas study counselling services, other educational services, K-12 education assessment and other services. Net revenues for the fiscal year ended December 31, 2019 only include the results of our portfolio training services, research-based learning services, overseas study counselling services, and other educational services conducted by Huanqiyimeng for the period from the Acquisition Date to December 31, 2019 (the “Partial Year 2019”). For the fiscal year ended December 31, 2018, our total net revenues were RMB 1.3 million, mainly derived from our K-12 education assessment and other services.

## **Our Programs, Services and Products**

We provide a wide variety of creative arts related international educational services to our students. Our services include portfolio training services, research-based learning services, overseas study counselling services and other educational services. Catering to the different needs of our students, these services can be offered in a bundle setting or separately. We update and expand our service offerings frequently in response to the evolving market needs, the outbreak of COVID-19 and the China-US relationship.

### ***Portfolio Training Services***

In addition to meeting the academic and language proficiency requirements, overseas art universities and colleges typically require a practical art portfolio as part of the application process. A portfolio is a collection of art work that shows how a candidate’s skills and ideas have developed over a period of time and helps universities and colleges evaluate the candidate’s potential. A portfolio can be in digital or hardcopy reproductions or original artwork, depending on the requirements of overseas art schools and personal preference of students. A portfolio usually consists of three to five sections, of which requirements and expectations vary by schools and programs; some have strict criteria while others are open and flexible. The variation in requirements and expectations may leave students with uncertainty about how to proceed with the preparation of their portfolios. Even when criteria are clear, applicants may feel overwhelmed and wonder what to draw, paint, make or create, which media to use and how to best select and present their art work. Compared to other requirements, portfolio preparation is the most difficult but important step in overseas art subject’s application, and thus has generated market needs for professional portfolio training services.

The portfolio training market in China has witnessed growth in recent years, primarily due to increasing ability of Chinese families to afford overseas education, higher recognition of the value of art, more career opportunities for art specialists, the low admission rates of top domestic art universities and colleges, and growing market awareness and recognition of professional portfolio training services. For these reasons, we believe that portfolio training market has room to grow going forward. In addition to being one of the leading players in the portfolio training market, we have gained a strong reputation in the market for our professional services and premier offer rates.

### ***Our Portfolio Training Courses***

We provide customized and systematic portfolio training services to our beginners, intermediate and advanced students. When a student applies for our portfolio training program, a study mentor will be assigned to such student to assess his or her educational background, art-related skills, creativity and innovation abilities and personal interests. Based on the assessment results and preferences of the student, the study mentor will help the student select an area of art to specialize in, configure a tailored training plan and assign one or more professional art teachers in the specialization for his or her training. The training plan will outline what types of programs to attend, how many credit hours are needed and whether research-based learning programs and overseas education application consulting services are needed. After the training plan is completed, the assigned professional art teachers (including domestic and international professors and masters in relevant art industry) will structure and develop a tailored program schedule and curriculum for the student and guide him or her through the preparation of a portfolio step by step. Generally, our programs are structured to include fundamental courses, creativity courses and professional courses. Credit hours needed to finish each type of course may vary by student due to differences in their educational background, art-related skills, creativity and level of innovation as well as class performance.

***Fundamental courses.*** In fundamental courses, students will learn and practice the basic skills required in the specialization they have selected under the instructions and supervision of our teachers. For example, students in fashion design, architectural design or fine arts area will learn and practice elementary drawing skills and techniques in their fundamental courses.

*Creativity courses.* In creativity courses, our teachers will guide and instruct students to practice observational drawing or other forms of art work that can be included in a portfolio, and work with them to select the materials and media to present in a portfolio. Observational drawing is a realistic representation of an object or scene that has been viewed directly in real life, as opposed to something that has been imagined or drawn from a photograph. It can be produced using any medium or combination of media such as graphite pencil, charcoal, pen, ink and/or paint. Observational drawing is essential for applicants in many specializations. Our teachers will give guidance on the selection of subject matter, as well as advice on the different angles, media and styles of observational drawing. Apart from observational drawing, there are other forms of art work that can be included in a portfolio; for example, three-dimensional sculptures, installations, casts and/or model constructions made from cardboard, paper, wire, wood or other materials can be included in a portfolio for architectural design. Our teachers will guide students through the selection of materials and media to work on their art work.

*Professional Courses.* In professional courses, students will learn how to create a portfolio step by step under the guidance and supervision of our teachers. The whole process primarily includes theme development, research, art work creation and refinement, art work selection, and portfolio presentation and composition. Students will first develop a theme for their portfolio, and then drill down to develop the theme into more detailed and symbolic ideas. Students will conduct research to explore and refine the ideas generated previously. After research, they will make preliminary pieces reflecting the content and structure of their ideas and refine such art work in subsequent rounds. Students will make a few pieces of art work for the purpose of selecting the best ones to be included in their portfolios. When the selected pieces are in place, students will put them together in a professional, coherent and aesthetically pleasing layout. Our teachers will give advice and directions to students along the whole process to ensure that their portfolios are creative, well-developed and meet the admission requirements and expectations of the universities or colleges that the students apply. Generally, majority of our courses are conducted offline and delivered through our nation-wide training center network. We also conduct online courses for certain portfolio training programs through a third-party platform; as an example, we provide online courses for students applying for art schools in Japan. After the outbreak of COVID-19, our training centers were mostly closed down from February 2020 to May 2020, to avoid interruption of our services, we have converted majority of the offline courses of our portfolio training services to online courses since February 2020 and provided options for students to take courses via online platforms. After a closedown of approximately three to four months as required by local education regulatory authority, and following the directives of local governments, most of our training centers have resumed operation by June 2020.

The ratio of online services provided by us in 2020 is approximately 30% in average. During the period from January 2020 to May 2020, such ratio even increases to around 75% due to the impact of COVID-19 pandemic. Accelerated by the COVID-19 pandemic, we are also increasingly embracing the experience in providing online services by launching our virtual online courses and moving our portfolio training courses online. We also plan to change our model of service delivery to a hybrid model, a mix of online and offline delivery, and develop more regularly-scheduled online curriculums going forward in response to growing market demands, through which students can attend classes of professional or highly skilled teachers nationwide. Additionally, we intend to convert some of our fundamental courses, which are traditionally delivered one-on-one or in small-sized classes of 2 to 15 students. All of our creativity and professional courses are currently delivered through one-on-one model. We plan to develop more small-sized classes going forward to improve our teaching efficiency and profit margin, especially for fundamental courses where most of the course content can be standardized for students. Due to the travel ban caused by COVID-19, some of our overseas professors cannot come to China to teach face to face. We have developed a multi-teacher model, where an international professor is paired with a domestic teacher. The international professor mainly focuses on teaching, with the domestic teacher mainly focuses on tutoring the students.

Our portfolio training programs vary from one to three years in duration, primarily depending on the needs of the students, which are driven by the admission deadlines of the schools they plan to apply for. Our portfolio training programs consist of time-based programs and project-based programs. Students who elect the time-based program enroll in a certain number of consulting/training hours, whereas students who elect the project-based programs have no consulting/training hour constraint but will be guided through a certain number of projects needed to complete a portfolio. Under project-based programs, the number of credit hours required to complete a project may vary depending on the background and requirements of the students.

#### *Our Portfolio Training Specializations*

We provide customized portfolio training services in different creative arts related specializations. Portfolio requirements for different specializations may share some common criteria but are different in many perspectives. For example, although observational drawing is required or useful for both architecture and fashion design, architecture design students will focus more on observational drawings of city scenes or building interiors, while students in fashion design will focus more on drawing clothing on models. For digital arts, such as animation and games, the admission staff of overseas art schools like to see candidates' technological awareness and the capability to work with a range of digital platforms, along with traditional observational drawing. We primarily provide portfolio training in the following nine art specialization.

*Architectural & Space.* Our architectural & space portfolio training mainly includes training in the areas of architecture and landscape design, interior and spatial design and city planning. An architectural space portfolio typically includes evidence of creativity using a range of media, such as 3D composition, installations, models of buildings, 3D modeling, spatial plans, design blueprints and strong observational drawing skills showing a student's ability to represent space, perspective and 3D form.

*Visual Communication.* Our visual communication portfolio training mainly includes training in the areas of graphic design, brand visual identity design, user interface design and illustration. A visual communication portfolio typically includes visual identity design, web/user interface design, font design, package design, illustration design, logo design, book design and poster design.

*Industrial & Interaction Design.* Our industrial & interaction design portfolio training mainly focuses on product design, furniture design, user experience design, game design, service design, human/computer interaction, information design, virtual reality and interactive media. An industrial & interaction design portfolio typically includes art work in both 2D and 3D that showcases strong practical, analytical and communication skills, as well as the technical and conceptual ideas and self-motivation capability of the student.

*Film & Drama.* Our film & drama portfolio training mainly includes training in the areas of stage design, property design, film making, film & television production, film editing, screen writing, theatre directing, film directing and performance studies. Making film and drama combines many different skills including performing arts, music, literature and writing. As a result, the requirements and format of a film & drama portfolio may be quite different from other specializations. For example, a film portfolio may be submitted in the format of a short video via DVD or flash drives or as URL links to YouTube, or embedded on a personal website or blog.

*Digital Arts.* Our digital arts portfolio training mainly includes training in the areas of animation, computer art, visual effects, game design, concept design and digital comics. A digital arts portfolio typically includes storyboards, character designs, 3D character modeling, scene design, design sketches, figure drawing, short animated films, short essays regarding game and finished key frames.

*Music.* Our music portfolio training mainly includes training in the areas of vocal music, instrumental music and music education. A music portfolio typically includes videos or recordings of musical work.

*Fine Arts.* Our fine arts portfolio training mainly includes training in the areas of sculpture, printmaking, painting & drawing, photography, performance art, artistic installation, ceramics & glass, imaging art and contemporary curating. A fine arts portfolio typically includes a series of paintings and drawings, crafts, contemporary installations or a series of photographs showing the foregoing.

*Art theory & administration.* Our art theory & administration portfolio training mainly includes training in the areas of art history, art education, art curating, arts administration and art management. An art theory & administration portfolio typically includes an arts study proposal and an art history writing sample.

*Fashion & Jewelry.* Our fashion & jewelry portfolio training mainly includes training in the areas of fashion design, fashion management, fashion merchandising, jewelry design, metalsmithing and accessories design. A fashion & jewelry portfolio typically includes fashion illustration, design sketches, pattern cutting & tailoring, textiles design, metalsmithing, jewelry design, accessory design and a final photo shoot.

### ***Research-Based Learning Services***

We have offered research-based learning, mainly including overseas educational travel services to our portfolio training students and other students since 2014. After the outbreak of COVID-19, we adjusted our products and began to offer domestic educational travel services and other research-based learning services to students in 2020 and also developed programs to render services online in response to the outbreak and spreading of COVID-19. The research-based learning market in China enjoyed an increase over the past several years, mainly due to the growing demand for high-quality out-of-classroom education and the increasing affluence of Chinese families. The art-themed research-based learning market in China is still developing and has high growth potential. We are looking for expanding our overseas and domestic partnerships to develop more overseas and domestic educational travel programs and other research-based learning programs with different destinations and themes at variable length of time to match the needs of the growing market.

We focus on combining research-based study and different learning styles in our research-based learning services, and bring art related experiences to students of all ages with different backgrounds. Traveling while researching and learning will help broaden students' horizons, enrich students' experiences, develop students' interest in art, and improve students' practical skills in art industry. Moreover, research-based learning projects help to refine the background of the student through inclusion of their valuable experience in their applications for overseas studies and, at times, providing access to recommendation letters by university professors. Most applicants for overseas art programs have research-based learning experience or have showed interest in research-based learning services. Our research-based learning services currently are more directed towards students who are interested in studying art overseas, to improve their background while taking our portfolio training programs and overseas study counselling services. We intend to expand our research-based learning services to serve a broader range of students who are interested in art going forward.

The types of research-based learning services provided by us mainly include academic educational learning, workshop experience, themed educational travel and transferrable credit courses. Typically, the duration of the services is from one to four weeks. The main destinations of our travel-related services are the United States, the United Kingdom, Japan, France and Italy. Our overseas travel-related services were adversely affected by the COVID-19 pandemic due to the global travel freeze resulted therefrom. In response, we have developed more domestic educational travel services and planned on probing into more cities to allow students to study and explore within the territory of China. We have also made our research-based learning services available online so that students can still enjoy our services amid the COVID-19 pandemic.

*Academic Educational Learning.* We provide students with learning experience in reputable art schools, or chances to learn from famous professors or masters from various art industries through our multiple academic educational learning programs. Our academic educational learning services target high school or undergraduate students who intend to study abroad. Typically, our programs include summer camp and winter camp programs where students will visit reputable art schools and take specialized art courses taught by famous professors. We also invite admissions officers who are in charge of recruiting candidates to meet and communicate with students. We also provide online certificate programs where students attend courses jointly delivered by us and overseas prestigious art schools we have partnered with, and at the end of which students will receive a certificate from these art schools indicating their completion of these online certificate programs. Due to the international travel restrictions, we have conducted the art school camps and admission officer events via online-form in response to the COVID-19 pandemic in the year of 2020.

*Workshop Experience.* We provide students with on-site and online workshop experiences in professionals' studios or by working on art projects at our partner universities. During a workshop experience, students practice in the areas they are interested in and gain practical experience. Our workshop experience is targeted at high school or undergraduate students who intend to study abroad.

*Themed Educational Travel.* We organize and guide students to local or overseas museums, art galleries, cultural relics, etc. in themed educational travel programs, during which we teach the relevant knowledge to cultivate students' interest in art, or guide students to conduct research online or on-site on specific art themes. For example, in August 2020, we organize students to conduct field research with respect to intangible cultural heritage in Sichuan. Themed educational travel is suitable for students at all ages, and especially attractive to lower age groups where the primary goals are to broaden their horizons, cultivate their interest in art and help them acquire art-related knowledge and appreciations.

*Transferable Credit Courses.* We partner with a third party and offer transferrable online credit courses in different majors (including art) for college and university undergraduate or graduate students who wish to take courses during their holidays or breaks in order to match the credits requirements of their school programs. Students will receive transcripts after completing the transferrable credit courses. Such credits can be counted or converted to GPAs in many school programs which optimize study time and cost for students.

#### ***Overseas Study Counselling Services***

We offer art-related overseas study counselling services to students as part of our comprehensive service package. The overseas study counselling market in China has witnessed growth in recent years, driven by the rapid growth of students looking to study overseas. Riding on the demand of overseas study, we believe art-related overseas study counselling services will have considerable growth potential as well. Being a portfolio training service provider, we possess professional knowledge in choosing art schools and programs and will better serve students applying in this area. We provide counselling advice in both academic and practical aspects and help students make decisions from the application stage through to the admission stage. Typically, our services include the following:

- *Background Development.* We set a customized timetable for applicants, which mainly includes schedules for portfolio preparation, language tests, internships and paperwork preparation. We also recommend and introduce our other services to the applicants according to the needs of such applicant.
- *University and Program Selection.* We offer guidance on university and program selection based on the individual academic background, personality, career goal and other factors of each student.
- *Paper Writing.* We help students develop the professional content and logical layout of their personal statements, resume, recommendation letters and other paperwork for art school applications.
- *Interview Simulation.* We provide sample interview questions that have previously been used and help students practice the interview process.
- *Application Preparation.* We present a checklist of documents required in school applications for students to prepare, such as a graduation certificate and proof of deposits.

### **Other Educational Services**

*Foreign Language Training Services.* We offer classes in foreign languages, including English, German, French, Spanish, Italian and Japanese, to students who need to take language tests when applying for overseas universities or students interested in learning foreign languages. Our foreign language training services focus on helping students improve their language abilities and test preparation techniques. We also promote our portfolio training services, research-based learning services and overseas study counselling services to students enrolled in our foreign language training services.

*Junior Art Education:* Our junior art education services aim to provide art-related tutoring courses for junior students from age 3 to 12, which are mainly designed to supplement students' regular school curriculum and help students cultivate and enhance their interest in art. Our primary subject for junior art education is painting. For the fiscal year ended December 31, 2020, we disposed three of the four junior art training centers which we previously operated, and provided most of our junior art education services via online platform during the first half of fiscal year 2020. We continue to provide online course options after the reopening of offline training center since late second quarter of 2020.

*In-School Classes.* In order to attract potential students at younger ages and expand our array of product, we partner with international schools to establish in-school art-related classes. We typically provide professional art teachers and customized art course content in these partnerships. Our goal is to cultivate and enhance students' interest in art at an early age and convert these potential students into our customers for portfolio training services, research-based learning services, overseas study counselling services and other educational services.

### **K-12 Education Assessment and Other Services**

We also offer the following services, which are services that existed before the Huanquiyimeng Acquisition.

- *K-12 Education Assessment Services.* We develop our own tests for K-12 students and collect and analyze their test results to evaluate the learning competencies of students and teaching qualities of schools, so as to provide advice for schools and local education bureaus to enhance education developments.
- *Research Project with the Research Institute of Future Education and Assessment of Tsinghua University* Our research project with the Research Institute of Future Education and Assessment of Tsinghua University focuses on the assessments of Chinese skills and competencies of non-native Chinese learners.

### **Our Teachers**

We are equipped with a team of professional art teachers who are specialists in different areas and who work either full-time or part-time for the delivery of our programs. As of December 31, 2020, we have a total of 1,282 teachers, including 156 full-time employees and 1,126 part-time teachers who are academics from universities and colleges or designers with private studios within their respective specializations. Most of our teachers have graduated from reputable domestic or overseas universities with master's degrees in China, the United Kingdom, the United States, Japan or other countries. Around 19% of our full-time teachers have over 5 years of related experience in the art industry, while around 21% of our full-time teachers have over 3 years of related experience. Our part-time teachers are generally experienced and have been working in the art industry for years. Most of our part-time teachers are experts in the relevant industries or teachers from prestige art schools and institutions who are familiar with the latest development in the relevant industries.

We have adopted a quantitative approach to comprehensively assess our teacher candidates on a wide set of criteria, including among others, educational background, professional abilities, teaching skills, previous teaching experience and communication skills. For the fiscal year ended December 31, 2020, we have established a centralized management system to allocate the national teaching resources for our domestic training center network, through which we manage and oversee the procurement sharing and development of teaching resources as well as to ensure consistency in the quality of our education. We rank our full-time teachers of portfolio training services in 5 levels, classified by educational background, social experience, teaching completion efficiency and teaching quality. The top three levels constitute around 54%. With respect to level one teachers, we plan to develop high-quality scheduled online curriculum in the form of small-sized classes facing nationwide students. Level two and level three teachers mainly focus on advanced creative art and design courses in both one-to-one courses and small-sized classes. With respect to level four teachers, they are mainly involved in the foundation curriculum in small-sized classes. With respect to level five teachers, they work as teaching assistant in small-sized classes. We offer different salary and compensation for teachers at different levels. In future, we plan to recruit more teaching assistants who have professional background in certain aspects to pair with our professional art teachers, and to substitute study mentors who are solely responsible for administrative affairs. We believe this arrangement can provide better services to our students and more effectively utilize the teaching time of our professional teachers.

Our teachers deliver courses to students to equip them with fundamental knowledge and skills, aesthetic appreciation for art, creative thinking capabilities, critical thinking abilities, professional skills, craftsmanship, software techniques and studio practice skills. We have also developed a systematic orientation training program and on-the-job training sessions, which reinforce the capabilities of our instructors to deliver our services effectively and assist students with learning efficiently. Our teachers' retention, compensation and promotion are largely based on their performance. We offer our teachers with performance-based compensation packages and provide them with career advancement prospects within the Company. We intend to continue leveraging our teaching resources within our nationwide network to ensure consistency in teaching quality.

## **Research and Curriculum Development**

We have devoted significant resources to continuous research and curriculum development. We have a dedicated and experienced research and curriculum development team composed of a number of curriculum development specialists and professional art teachers who analyze market demand, study cutting-edge developments and related techniques, and develop the most appropriate curriculum and teaching methods to provide up-to-date and quality education services to our students.

Our research and curriculum development process mainly include the following:

*Research.* Our R&D team periodically conducts market research to study market needs, the cutting-edge knowledge required in each field of the creative arts, and information of similar or related services and products in the market, which are then used to tailor our curriculum and education plans. Our R&D team also pays visits to domestic universities and professional art colleges and researches their courses to capture the knowledge or technical skills that are not covered in their curriculum but are expected in overseas art subjects' applications. In addition, our R&D team will research the requirements and admission focuses of overseas art schools to tailor our services and products to closely match such requirements and admission focuses.

*Curriculum Design and Development.* After comprehensive market research and study, our R&D team converts the information they collect into new portfolio training themes, curricula and training materials after extensive discussion with our professional art teachers. We also establish new training courses to fill the knowledge and technical skill gap between the art courses provided by domestic universities and professional art colleges and the requirements and expectation on applications for overseas art programs.

*Curriculum Test and Optimization.* After completing the design and development process, our R&D team tests the new themes, curricula or teaching materials within a relatively small range of classes and collects feedbacks from teachers, students and parents to revise and upgrade new content before we bring it to market. Our R&D team also regularly revises and upgrades our training materials and curricula post-development to better serve market needs and improve the quality of our services.

## **Our Customers**

Our customers primarily consist of high school and undergraduate students who intend to pursue overseas undergraduate or graduate art studies. For our portfolio training services, research-based learning services and overseas study counselling services, our customers are mainly high school and undergraduate students. We also provide services to certain other students. For foreign language training services, we mainly target high school and undergraduate students and other non-student professionals who need to pass relevant language tests in connection with overseas school application. For in-school classes, we mainly target junior-level high school students, who may be interested in pursuing creative art studies in the future. For junior art education, our primary customers are junior students from age 3 to 12. We plan to extend our service life-cycle and expand our customer range, through adjusting our products and introducing new services, such as internships, opportunities or employment referrals for job-hunting candidates, interest-based learning courses for younger market, etc.

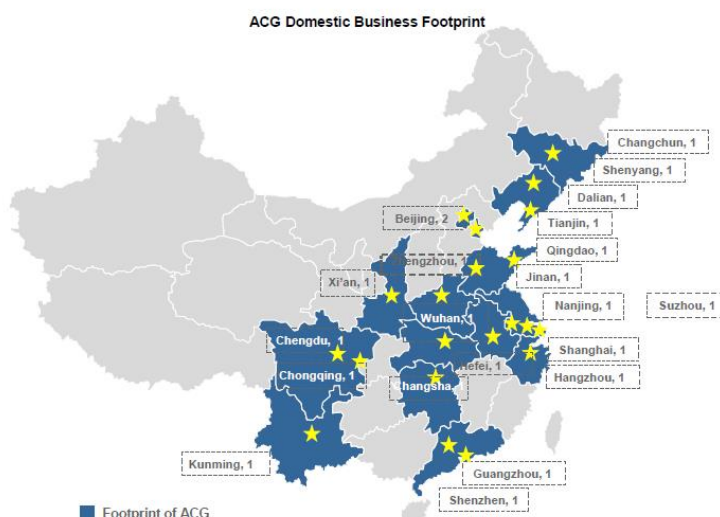
*High School Student Customers.* We provide portfolio training services, research-based learning services, overseas study counselling services and other educational services to high school students who aim to pursue overseas undergraduate studies in art. High school students enrolled in our services are mainly from private bilingual high schools or the international classes of public high schools. Compared with undergraduate students, high school students generally have relatively weaker foundations of art-related knowledge and skills, and possess less information on how to apply for overseas art programs; thus many of them prefer purchasing a full set of our services, which can comprehensively enrich their artistic knowledge, improve their artistic thinking and perception, enhance their professional skills and provide them with information on applying for overseas art programs. Without their own source of income, almost all high school students are sponsored by their families who tend to be less price sensitive but more concerned with application results.

*Undergraduate Student Customers.* We primarily provide portfolio training services, research-based learning services, overseas study counselling services and other educational services to undergraduate students who aim to pursue overseas graduate studies in art. Majority of the undergraduate students enrolling in our services have studied art-related majors in domestic universities or professional art colleges and aim to pursue overseas graduate studies in the arts, while the remaining have studied in other majors but desire to transfer to art programs in overseas graduate schools. Most undergraduate students have gained a certain amount of art-related expertise during their undergraduate art studies. As a result, whilst they still rely on our services, resources and guidance to improve their applications for overseas art programs, they tend to care more about the cost-effectiveness of our services and products and usually only purchase the types of our services they need instead of purchasing for the full package.

*Other customers.* For the fiscal year ended December 31, 2020, we also had enrollments from other students besides high school and undergraduate students. These students cover a wide range in age. For example, we provide research-based learning services to secondary school students who are not motivated by the desire to submit art school applications but to cultivate their interests in art and acquire art-related knowledge and appreciation. We also provide other creative art related services to children aged 3 to 12 years old, such as printmaking teaching services.

## Our Training Center Network

We operate 22 training centers in 21 cities in China as of the date of this annual report. We deliver our educational services to students primarily through our training center network and we plan to further expand our training center network in China and abroad to increase our market penetration and market share.



\* Domestic business footprint of ACG as of April 6, 2021

Our training center network covers 21 major cities, 17 provinces and municipalities in China, including:

*Northern China:* Beijing, Tianjin, Jinan, Qingdao, Dalian, Changchun and Shenyang, accounting for 42% of our total student enrollment. Beijing has two training centers representing 23% of our total student enrollment in fiscal year ended December 31, 2020.

*Southern China:* Shenzhen, Wuhan, Changsha and Guangzhou, accounting for 15% of our total student enrollment in fiscal year ended December 31, 2020.

*Eastern China:* Shanghai, Hangzhou, Nanjing, Hefei and Suzhou, accounting for 28% of our total student enrollment in fiscal year ended December 31, 2020. Shanghai had two training centers, one of which was closed in first quarter of 2020, representing 11% of our total student enrollments in fiscal year ended December 31, 2020.

*Western China:* Xi'an, Zhengzhou, Kunming, Chongqing and Chengdu, accounting for 15% of our total student enrollment in fiscal year ended December 31, 2020.



## Marketing, Sales and Business Development

As an international educational services provider, we focus on providing international education experiences that enrich and cultivate students' creativity. We believe our quality services and products, unique and practical curricula, and our "ACG" brand, teachers and resources generally play a significant role in attracting our prospective students.

We employ a variety of marketing and student recruiting methods to attract prospective students. However, due to the outbreak of COVID-19, in fiscal year ended December 31, 2020, we relied primarily on online sales channels and referrals to recruit new customers during this time and could only enhance student enrollment from offline training centers as the COVID-19 pandemic gradually became under control in later half of the fiscal year 2020.

*Partnership with Sales Channels.* We acquire potential student leads through our partnership with overseas study counselling or foreign language training service providers. Currently, our partnerships with such sales channels are an essential marketing method for us to acquire new students.

*Internet and Mobile Advertisement.* We advertise on the mainstream online search engines to promote our services to potential students who actively search keywords relevant to portfolio training, art study, etc. We also advertise through social media platforms to potential students, including without limitation, WeChat, Weibo and TikTok. Internet and mobile advertising are also important marketing methods for us to acquire new students. For example, we produce some free or low-price short teaching videos which introduce art-related knowledge, and upload them to internet platform, such as our official WeChat account, official website, and other third-party platforms to attract potential students.

*Word of Mouth Referral.* Due to our high-quality services and products as well as strong rate of admissions to reputed institutions for our students, our existing and previous students frequently recommend our services and products to others who are in need of similar services and products. We believe our brand is recognized in the portfolio training market and has a competitive advantage from word of mouth referrals.

*Marketing Events and Activities.* We frequently participate in educational seminars, art workshops and on-campus events and give free speeches and lectures in order to introduce and promote our brand name and services. We also periodically participate and host educational expositions and other community events in addition to distributing informational brochures or addressing queries from potential interested students.

## Competition

The market for art related educational services, and portfolio training services in particular, has quickly ramped up in recent years, and is currently undergoing fierce competition with all players aggressively up-scaling. Market players can be classified into leading players, other organized players and individual studios.

We believe we are one of the leading players in the portfolio training market in terms of, among others, geographic coverage, product breadth, and student enrollment. In research-based learning services and other creative arts related international education services, we are also a player with a competitive edge. Our main competitors are other domestic and international art training institutions and organizations, which focus on some of our targeted markets. We also face potential competition from small to middle-sized organized players and individual studios. Amid the COVID-19 pandemic, an increasing number of small-sized players and individual studios are forced to suspend operations or discontinue their business compared to medium and large-sized players. Therefore, leading players with established brand, including ACG, which have more diversified products/services and geographical coverage are comparatively more favorable choices for potential customers.

We compete primarily on the basis of branding and student acquisition, training quality, faculty, training center environment, product breadth and pricing, among which, branding and student acquisition is generally regarded as the most important factor, while pricing is the least. Amid the COVID-19 pandemic, we increased our competitive edges with our brand and reputation, which typically tend to engender the trust of clients, and play a role in helping us maintain and recruit prominent teachers and employees. We believe that our competitive advantages include our "ACG" brand, high admission rate to art institutions, qualified faculty, competitive training quality and comprehensive product mix. However, our competitors may establish brands that have wider recognition than us, develop marketing and sales methods that are more effective than ours, introduce new products and services that have better performance and hence gain broader acceptance, hire and retain more qualified teachers, offer more satisfactory training center environment or lower prices to students, which may cause us to lose our market share.

## Seasonality

We have experienced and expect to continue to experience slight seasonal fluctuations in our revenues and results of operations, with the quarter ending March 31 typically having relatively lower revenues compared with the other quarters primarily for our portfolio training services. This is primarily because fewer students take classes in January and February due to spring festival holidays in China, and that some students have already completed their application to study art overseas in December of the previous year.

## Intellectual Property

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

As of December 31, 2020, we have registered 39 trademarks for our products and services with the Trademark Office of the SAMR in China.

As of December 31, 2020, we have registered 78 software copyrights relevant to our product and service offerings with the National Copyright Administration of the People's Republic of China, or NCA.

As of December 31, 2020, we have also registered 39 domain names relating to our websites, including [www.atai.net.cn](http://www.atai.net.cn), [www.acgedu.cn](http://www.acgedu.cn) and [www.acgorg.com](http://www.acgorg.com), the primary URLs for our three main websites, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center, a domain name registration service provider in China.

## 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.

### *Education Law of the PRC*

On March 18, 1995, the National People's Congress of the PRC, or the NPC, enacted the Education Law of the PRC, or the Education Law, which was amended on August 27, 2009. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school education system comprising kindergarten education, primary education, secondary education and higher education, a system of nine-year compulsory education, a national education examination system, and a system of education certificates. The Education Law stipulates that the government formulates plans for the development of education, establishes and operates schools and other education institutions. Furthermore, it provides that in principle, enterprises, social organizations and individuals are encouraged to establish and operate schools and other types of education institutions in accordance with PRC laws and regulations. Meanwhile, no organization or individual may establish or operate a school or any other education institution for profit-making purposes. On December 27, 2015, the Education Law was amended, which became effective on June 1, 2016. The amended Education Law repudiates a specific paragraph of the old law, which prohibits any organization or individual from establishing or operating a school or any other education institution for profit-making purposes. Nevertheless, schools and other education institutions sponsored wholly or partially by government financial funds and donated assets remain prohibited from being established as for-profit organizations.

### *The Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education*

The Law for Promoting Private Education of the PRC became effective on September 1, 2003 and was respectively amended on June 29, 2013, November 7, 2016 and December 29, 2018, and the Implementation Rules for the Law for Promoting Private Education of the PRC became effective on April 1, 2004. Under these regulations, "private schools" are defined as schools established by social organizations or individuals using non-government funds. Private schools providing academic qualifications education, kindergarten education, education for self-study examination and other education shall be subject to approval by the education authorities at or above the county level, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of labor and social welfare at or above the county level. A duly approved private school will be granted a Permit for Operating a Private School, and shall be registered with the Ministry of Civil Affairs of the PRC, or the MCA, or its local counterparts as a privately run non-enterprise institution.

Under the above regulations, the operations of a private school are highly regulated. For example, the types and amounts of fees charged by a private school providing academic qualifications education shall be approved by relevant government authorities and publicly disclosed, and a private school that provides non-academic qualifications education shall file its pricing information with the relevant government authorities and publicly discloses such information.

According to PRC laws and regulations, entities and individuals who establish private schools are commonly referred to as “sponsors” rather than “owners” or “shareholders.” The economic substance of “sponsorship” with respect to private schools is substantially similar to that of shareholder’s ownership with respect to companies in terms of legal, regulatory and tax matters. For example, the name of the sponsor shall be entered into the private schools’ articles of association and Permit for Operating a Private School, similar to that of shareholders where their names shall be entered into the company’s articles of associations and corporate records filed with relevant authority. From the perspective of control, the sponsor of a private school also has the right to exercise ultimate control over the school by means such as adopting the private school’s constitutional documents, electing the school’s decision-making bodies, including the school’s board of directors and principals. The sponsor can also profit from the private schools by receiving “reasonable returns,” as explained in detail below, or disposing its sponsorship interests in the schools for economic gains. However, the rights of sponsors vis-à-vis private schools also differ from the rights of shareholders vis-à-vis companies. For example, under the PRC laws, a company’s ultimate decision-making body is its shareholders meeting, while for private schools, it is the board of directors, though the members of which are substantially appointed by the sponsor. The sponsorship interest also differs from the ownership interests with regard to the right to the distribution of residual properties upon liquidation of a private school, mainly because private education is treated as a public welfare undertaking under the current regulations. While private education is treated as a public welfare undertaking under the current regulations, sponsors of a private school may choose to require “reasonable returns” from the annual net balance of the school after deduction of costs for school operations, donations received, government subsidies (if any), the reserved development fund and other expenses as required by the regulations. Private schools whose sponsor does not require reasonable returns shall be entitled to the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools whose sponsor require reasonable returns shall be formulated by the finance authority, taxation authority and other authorities under the State Council. To date, however, no regulations have been promulgated by such authorities in this regard.

The Decision of the Standing Committee of the National People’s Congress on Amending the Law for Promoting Private Education of the PRC, or the Amendment, has been promulgated by Order No. 55 of the President of the PRC on November 7, 2016 and has come into force on September 1, 2017.

Under the Amendment, the term “reasonable return” is no longer used and sponsors of private school may choose to establish non-profit or for-profit private schools at their own discretion, while before the Amendment, all private schools shall not be established for for-profit purposes. Nonetheless, school sponsors are not allowed to establish for-profit private schools that are engaged in compulsory education. In other words, the schools engaged in compulsory education should retain their non-profit status after the Amendment comes into force.

The Amendment further establishes a new classification system for private schools to be classified by whether they are established and operated for profit-making purposes.

According to the Amendment, the key features of the aforesaid new classification system for private schools include the following:

- sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law and other relevant laws and regulations;
- sponsors of non-profit private schools are not entitled to the distribution of profits or proceed from the non-profit schools and all operation surplus of non-profit schools shall be used for the operation of the schools;
- for-profit private schools are entitled to set their own tuition and other miscellaneous fees without the need to seek prior approvals from or report to the relevant government authorities. The collection of fees by non-profit private schools, on the other hand, shall be regulated by the provincial, autonomous regional or municipal governments;
- private schools (for-profit and non-profit) may enjoy preferential tax treatments. Non-profit private schools will be entitled to the same tax benefits as public schools. Taxation policies for for-profit private schools after the Amendment taking effect are still unclear as more specific provisions are yet to be introduced;
- where there is construction or expansion of a non-profit private school, the school may acquire the required land use rights in the form of allocation by the government as a preferential treatment. Where there is construction or expansion of a for-profit private school, the school may acquire the required land use rights by purchasing them from the government;

- the remaining assets of non-profit private schools after liquidation shall continue to be used for the operation of non-profit schools. The remaining assets of for-profit private schools shall be distributed to the sponsors in accordance with the PRC Company Law; and
- people's governments at or above the county level may support private schools by subscribing to their services, provision of student loans and scholarships, and leases or transfers of unused state assets. The governments may further take such measures as government subsidies, bonus funds and incentives for donation in support of non-profit private schools.

On December 29, 2016, the State Council issued the Several Opinions of the State Council on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education, or the State Council Opinions, which requires to ease the access to the operation of private schools and encourages social forces to enter the education industry. The State Council Opinions also provides that each level of the people's governments shall increase their support to the private schools in terms of financial investment, financial support, autonomy policies, preferential tax treatments, land policies, fee policies, autonomy operation, protecting the rights of teachers and students etc. Further, the State Council Opinions require each level of the people's governments to improve its local policies on government support to for-profit and non-profit private schools by ways of preferential tax treatments etc. In addition, under the State Council Opinions, private schools shall strengthen its construction of the Chinese Communist Party, or the CCP, and further the theoretical system of Socialism with Chinese Characteristics by introducing such system into textbooks and teaching programs. The construction of the CCP's organizations by the private schools as well as the CCP's leadership to private schools shall constitute an important part of such schools' annual inspections.

On December 30, 2016, the Ministry of Education, or the MOE, MCA, SAMR, the Ministry of Human Resources and Social Welfare and the State Commission Office of Public Sectors Reform jointly issued the Implementation Rules on the Classification Registration of Private Schools to reflect the new classification system for private schools as set out in the Amendment. Generally, if a private school established before promulgation of the Amendment chooses to register as a non-profit school, it shall amend its articles of association, continue its operation and complete the new registration process. If such private school chooses to register as a for-profit school, it shall conduct financial liquidation process, have the property rights of its assets such as lands, school buildings and net balance being authenticated by relevant government authorities, pay up relevant taxes, apply for a new Permit for Operating a Private School, re-register as for-profit schools and continue its operation. Specific provisions regarding the above registrations are yet to be introduced by people's governments at the provincial level.

On December 30, 2016, the MOE, SAMR and the Ministry of Human Resources and Social Welfare jointly issued the Implementation Rules on the Supervision and Administration of For-profit Private Schools, pursuant to which the establishment, division, merger and other material changes of a for-profit private school shall first be approved by the education authorities or the authorities in charge of labor and social welfare, and then be registered with the competent branch of SAMR.

On September 1, 2017, SAMR and MOE jointly issued the Notice of Relevant Work on the Registration and Management of the Name of For-Profit Private Schools, which specifies the requirements on the names of for-profit private schools.

On April 20, 2018, the MOE issued for public comments the Draft Revision of the Implementation Rules of the Law for Promoting Private Education of the PRC (the Draft for Comments), or the MOE Draft for Comments. As the consultation period for the MOE Draft for Comments ended in May 2018, on August 10, 2018, the Ministry of Justice published for public comments the Draft Revision of the Implementation Rules of the Law on Promoting Private Education in PRC (the Draft for Approval), or the Draft Amended Implementation Rules, which is still subject to discussion, potential revision and adoption by the State Council before it becomes effective. Accordingly, substantial uncertainty remains with respect to its final content, effective date, interpretation and implementation. Nevertheless, such Draft Amended Implementation Rules proposes changes, clarifications and additional requirements with respect to private schools in addition to the currently effective Law for Promoting Private Education and relevant implementation rules. In particular, the Draft Amended Implementation Rules clarifies that the scope of "private school" includes private training education institutions engaging in non-degree education, which could potentially include us. According to the Draft Amended Implementation Rules, a for-profit private training institution that provides online training education or an online platform that facilitates such training education services, which does not engage in (i) cultural education related to school curriculums or tutoring services for kindergarten, primary or second school examinations or entrance requirements for primary, secondary or high school, or (ii) education that leads to a degree, would need to obtain the corresponding internet operating permit and file with the administrative department for education or the department of human resources and social security at the provincial level where the institution is domiciled. The internet technology service platform that implements the training and educational activities shall review and register the identity information of institutions or individuals applying for access to the platform. If enacted into law in its current form, the Draft Amended Implementation Rules would represent a major change to the laws and regulations relating to private schools, including, among others, (i) the required composition of the board of directors of private schools, (ii) that related party transactions to which a private school is a party would be required to be conducted on a fair and just basis without impediment to the interests of the state, the school, the teachers and the students and any director who is interested in any related party transactions of such private school should abstain from voting to approve any such transactions. The Draft Amended Implementation Rules further provides that private training institutions for language, art, sports, science and technology teaching and private training institutions for adults for cultural education or non-academic continuing education can directly apply for the registration with the local SAMR, pursuant to which our private training institutions are not required to obtain a private school operation permit from education authorities.

On December 29, 2018, the Decision of the Standing Committee of the National People's Congress on Amending the Seven Laws of the Labor Law of the People's Republic of China was promulgated by Order No.24 of the President of the PRC and took effect on the same date, which made two minor adjustments to Article 26 and Article 64 of the Law for Promoting Private Education of the PRC. These minor adjustments do not materially affect our business and operations.

Besides the Amendment and the above regulations, the other details of the operation requirement of non-profit schools and for-profit schools will further be provided in implementation regulations that are yet to be introduced:

- the local regulations relating to legal person registration of for-profit and non-profit private schools; and
- the specific measures to be formulated and promulgated by the competent authorities responsible for the administration of private schools in the province(s) in which our schools are located, including but not limited to the specific measures for registration of pre-existing private schools, the specific requirements for authenticating various parties' property rights and payment of taxes and fees of for-profit private schools, taxation policies for for-profit private schools, measures for the collection of non-profit private schools' fees.

As of the date of this annual report, certain local governments, for example, Beijing, Shanghai, Jiangsu province, Hebei province, Shanxi province and Hainan province, have promulgated their local regulations relating to legal person registration and administration for private schools and certain local governments, for example, Beijing, Shanghai, Jiangsu province, Hubei province, Hebei province, Zhejiang province, Yunnan province, Gansu province, Anhui province and Liaoning province, have promulgated general guidance to encourage the development of private schools. Among these local regulations and guidance, some local governments, such as Beijing, Shanghai, Hubei province, Hebei province, Anhui province, Yunnan province and Zhejiang province require the existing private schools to register either as for-profit or non-profit schools within a specific time period. Under the Law for Promoting Private Education, as private education institutions established under the PRC law are also included in the category of "private schools", our training centers may be characterized as private schools. See Item 3.D. "Key Information — Risk Factors — Risks Relating to Our Business — Our training centers may be characterized as private schools and thus be required to obtain private school operating permits, and failure to obtain such permits may materially and adversely affect our business operations." As a result, preferential tax treatments granted to our training centers by governmental authorities are subject to review and may be adjusted or revoked at any time in the future.

***Guidelines for Overseas Educational Travel Participated by Primary and Middle School Students (Trial)***

On July 15, 2014, the Ministry of Education of the People's Republic of China promulgated the Guidelines for Overseas Educational Travel Participated by Primary and Middle School Students (Trial) (the "Guidelines"), which became effective on July 15, 2014. Under the Guidelines, overseas educational travels participated in by primary and middle school students means, by adapting to the characteristics of primary and middle school students and the educational needs, programs that organize primary and middle school students to go overseas to learn foreign languages and other short-term curriculum, perform art shows, compete in contests, visit schools, attend summer/winter school programs, or take part in other activities that help students expand their horizon and promote enrichment and enhancement, in the manner of group travel and group accommodation during the academic semesters or vacations. Overseas educational travels attended by primary and middle school students shall follow the principles of safety, civility and efficiency. The schedule for study, from the perspective of both the content and the duration, shall be no less than 1/2 of the total schedule. The organizer shall choose legitimate and qualified cooperation institutions, and stress the importance of safe education, and shall appoint a guiding teacher for each group. The organizer shall apply the rules of cost accounting, notify the students and their supervisors of the composition of the fees and expenses, and enter into an agreement as required by law. The school and its staff shall not seek any economic benefit from organizing its own students to attend an overseas educational travel.

### ***Regulations on Tourism***

The Tourism Law of the PRC, which was promulgated by the Standing Committee of the NPC and most recently amended on October 26, 2018, provides that, among other things, to engage in the businesses of outbound tourism, a travel agency shall obtain the corresponding business permit, and the specific conditions shall be provided for by the State Council and that when organizing an outbound touring group, or organizing or receiving an inbound touring group, a travel agency shall, in accordance with the relevant provisions, arrange for a tour leader or tour guide to accompany the touring group in the whole tour. Regulations on Travel Agencies promulgated by the State Council, revised on November 29, 2020, and the implementation rules of Regulations on Travel Agencies, provide that, among other things, travel agent shall mean any entity that engages in the business of attracting, organizing, and receiving tourists, providing tourism services for tourists and operating domestic, outbound or border tourism; the aforementioned business shall include but not limit to arranging for transport services, arranging for accommodation services, providing services for tour guides or team leaders, providing services of tourism consultation and tourism activities design. According to the Regulations on Travel Agencies and its implementation rules, any tourism agent engages in domestic and outbound tourism shall apply for corresponding permits to engage in such tourism activities from the administrative department of tourism under the State Council, the governments of provinces, autonomous regions, or municipalities. In the event that any person is engaged in tourism business without holding the permits required, the competent administrative department or branch of SAMR may order such person to obtain the permits required, confiscate the illegal income from such business and impose fines to such person. With respect to our research-based learning services, we cooperate with third party travel agencies which have travel agency permits for our educational travel activities, such as accommodation and tour guiding, while we are also engaged in certain travel-related activities ourselves, such as attracting and organizing students, and arranging for some transport services. Under the current law rules, it is not clear whether we are required to obtain a travel agency permit.

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

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

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

On November 4, 2016, the Cyberspace Administration of China promulgated the Provisions on the Administration of Online Live Broadcasting Services, which became effective as of December 1, 2016. On August 1, 2018, the Cyberspace Administration of China promulgated the Circular on Tightening the Administration of Online Live Services. Such Provisions provide that anyone who provides online live broadcasting services through online performances, internet video/audio programs and so forth, shall obtain relevant qualifications as required by laws and regulations.

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

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

On March 16, 2018, the SARFT promulgated the Notice on Further Regulating the Transmission Order of Internet Audio-Visual Program Services, which provides that the classic literary works, radio, film and television programs, and original internet audio-visual programs shall not be re-edited, re-dubbed, re-subtitled or partly captured and consolidated as a new program without authorizations, and providers of internet audio-visual program services shall strictly manage and supervise such re-edited programs uploaded by the internet users and shall not provide any transmission channel for those internet audio-visual programs with political orientation issues, copyright issues or content issues.

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

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

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

In addition, the Standing Committee of the National People's Congress promulgated the Cyber Security Law of the People's Republic of China, or the Cyber Security Law, which took effect on June 1, 2017, to protect cyberspace security and order. Pursuant to the Cyber Security Law, any individual or organization using the network must comply with the constitution and the applicable laws, follow the public orders and respect social moralities, and must not endanger cyber security, or engage in activities by making use of the network that endanger the national security, honor and interests, or infringe on the fame, privacy, intellectual property and other legitimate rights and interests of others. The Cyber Security Law sets forth various security protection obligations for network operators, which are defined as "owners and administrators of networks and network service providers," including, among others, complying with a series of requirements of tiered cyber protection systems; verifying users' real identities; localizing the personal information and important data gathered and produced by key information infrastructure operators during operations within China; and providing assistance and support to government authorities where necessary for protecting national security and investigating crimes. On May 28, 2019, the Cyberspace Administration of China promulgated the Draft Data Security Administrative Measures. According to the Draft Data Security Administrative Measures, cyberspace operators shall, in accordance with relevant laws and administrative regulations, with reference to national cyber security standards, fulfill the obligation for data security protection, establish data security management responsibility as well as evaluation and appraisal systems, develop data security plans, implement data security technology protection, and carry out assessment of data security risks, develop emergency plans for cyber security incidents, promptly handle security incidents and organize data security-related education and training. On July 3, 2020, the Draft Data Security Law was deliberated on at the 20th Session of the Standing Committee of the 13th National People's Congress. According to the Draft Data Security Law, the entities and individuals shall fulfill the obligations of data security protection, including monitoring risks of data activities and reporting any data security incidents to the administrative department in a timely manner.

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

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

PRC laws require owners of Internet domain names to register their domain names with qualified domain name registration agencies approved by MIIT and obtain a registration certificate from such registration agencies. A registered domain name owner has an exclusive usage right over its domain name. Unregistered domain names may not receive proper legal protections and may be misappropriated by unauthorized third parties. As of December 31, 2020, we have registered 39 domain names relating to our websites, including [www.atai.net.cn](http://www.atai.net.cn), [www.acgedu.cn](http://www.acgedu.cn) and [www.acgorg.com](http://www.acgorg.com) the primary URL for our website, with the Internet Corporation for Assigned Names and Numbers and the China Internet Network Information Center, a domain name registration service provider in China.

PRC law requires entities operating commercial websites to register their website names with SAMR or its local offices and obtain a commercial website name registration certificate. If any entity operates a commercial website without obtaining such certificate, it may be charged a fine or suffer other penalties imposed by the SAMR or its local offices.

#### ***Regulation of Privacy Protection***

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

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

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



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

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

#### ***Regulation of Foreign Investment***

According to the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, foreign invested enterprises can be established in the form of a sino-foreign equity joint venture, a sino-foreign cooperative joint venture or a wholly foreign-owned enterprise. Prior to its registration, the enterprise must be approved by the commerce authorities, upon which a certificate of approval for a foreign-invested enterprise will be issued.

On 23 June 2020, MOFCOM and National Development and Reform Commission, or NDRC jointly promulgated the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2020 Edition) (the "2020 Negative List"), which came into effect on 23 July 2020. The 2020 Negative List replaced the negative list provided under the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2019 Edition) (the "2019 Negative List"). Pursuant to the 2020 Negative List, the number of items subject to the special administrative measures has been reduced from 40 to 33. The 2020 Negative List remains unchanged with respect to the education industry.

On March 15, 2019, Second Session of the 13th National People's Congress adopted the Foreign Investment Law of the People's Republic of China, and came into effect as of January 1, 2020. On December 12, 2019, State Council promulgated the Implementation Rules of Foreign Investment Law, effective from January 1, 2020. On December 16, 2019, Supreme People's Court promulgated the Interpretations of the Supreme People's Court on Certain Issues on Application of the Foreign Investment Law, effective from January 1, 2020. After the Foreign Investment Law became effective, the trio of existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations, were abolished.

After the formal implementation of the Foreign Investment Law, the organization form and institutional framework of a newly established foreign-funded enterprise are subject to the relevant provisions of the Company Law of the People's Republic of China or the Partnership Enterprise Law of the People's Republic of China. Foreign-funded enterprises established in accordance with the laws on the foregoing three types of foreign-funded enterprises before the implementation of the Foreign Investment Law may continue to retain their original organizational forms for five years after the implementation of the Foreign Investment Law. In other words, existing foreign-funded enterprises will have a transition period of five years to modify their existing organizational forms and organizational structure to meet and abide by the relevant provisions of the Company Law of the People's Republic of China or the Partnership Enterprise Law of the People's Republic of China.

#### ***Regulation of Foreign Exchange***

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

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

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

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

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

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

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

On February 13, 2015, SAFE promulgated the Notice on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment, or SAFE Circular 13, which became effective on June 1, 2015. Pursuant to SAFE Circular 13, annual foreign exchange inspection of direct investment is not required anymore, and the registration of existing equity is required. SAFE Circular 13 also grants the authority to banks to directly examine and process foreign exchange registration with respect to both domestic and overseas direct investment. SAFE issued Notice on reform and regulations of the Administration Policy of Foreign Exchange under Capital Account, or SAFE Circular 16, effective from June 9, 2016. Pursuant to SAFE Circular 16, enterprises registered in China may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. SAFE Circular 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on a self-discretionary basis which applies to all enterprises registered in China. SAFE Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, while such converted Renminbi shall not be provided as loans to its non-affiliated entities.

On October 23, 2019, SAFE issued the Notice for Further Advancing the Facilitation of Cross-border Trade and Investment, or SAFE Circular 28. Among others, SAFE Circular 28 relaxes the prior restrictions and allows the foreign-invested enterprises without having equity investment in their approved business scope to use their capital obtained from foreign exchange settlement to make domestic equity investment as long as the investments are real and in compliance with the foreign investment-related laws and regulations. In addition, SAFE Circular 28 stipulates that qualified enterprises in certain pilot areas may use their capital income from registered capital, foreign debt and overseas listing, for the purpose of domestic payments without providing authenticity certifications to the relevant banks in advance for those domestic payments.

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

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

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

Failure by such shareholders to comply with SAFE Circular 37 could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects. Failure to register or comply with relevant requirements may also limit our ability to contribute additional capital to our PRC subsidiaries and limit our PRC subsidiaries' ability to distribute dividends to our company. These risks may have a material adverse effect on our business, financial condition and results of operations.

#### ***Regulation of Overseas Listings***

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

We believe CSRC approval was not required for our initial public offering in February 2008 because the CSRC approval required under the M&A Rule only applies to an offshore company that has acquired a domestic PRC company for the purpose of listing the domestic PRC company's equity interest on an overseas stock exchange, while (i) we obtained our equity interest in each of our PRC subsidiaries by means of direct investment other than by acquisition of the equity or assets of a PRC domestic company in 2008, (ii) our former contractual arrangements with ATA Online do not constitute the acquisition of ATA Online, (iii) the M&A Rule does not apply to the acquisition by ATA Learning, which had been a wholly foreign owned enterprise since incorporation until it was reformed into a PRC domestic company in 2018, and (iv) although Article 11 of M&A Rule prohibits the circumvention of the M&A Rule through establishing FIEs, ATA Learning was established in 2003 before the M&A Rule was promulgated, which makes this acquisition not a circumvention of the M&A Rule. See Item 3.D. "Key Information — Risk Factors — Risks Relating to Regulations of Our Business — If CSRC or another PRC regulatory agency determines that CSRC approval was required in connection with our initial public offering, we may become subject to penalties."

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

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

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

### ***Employment Laws***

In accordance with the Labor Law, which became effective in January 1995, amended on December 29, 2018, and the Labor Contract Law, which was promulgated on June 29, 2007, amended on December 28, 2012 and became effective on July 1, 2013, employers must execute written labor contracts with full-time employees in order to establish an employment relationship. According to the Labor Contract Law, an employer is under an obligation to sign an unlimited-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract must have an unlimited term, with certain exceptions. The employer must also pay severance to an employee in nearly all instances where a labor contract, including a contract with an unlimited term, is terminated or expires. All employers must compensate their employees equal to at least the local minimum wage standards. All employers are required to establish a system for labor safety and sanitation, strictly abide by state rules and standards and provide employees with appropriate workplace safety training. In addition, the government has continued to introduce various new labor-related regulations after the Labor Contract Law. Among other things, new annual leave requirements mandate that annual leave ranging from 5 to 15 days is available to nearly all employees and further require that the employer compensate an employee for any annual leave days the employee is unable to take in the amount of three times his daily salary, subject to certain exceptions. In addition, companies operating in China are required to participate in social insurance and housing fund plans in which the employers must pay for the employees' social welfare and housing fund based upon certain percentages of employees' salaries.

### **C. Organizational Structure**

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

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

Our principal executive offices is located at 1/F East Gate, Building No. 2, Jian Wai Soho in Beijing, where we lease and occupy an office space of approximately 845 square meters. We operate an aggregate of approximately 16,879 square meters of space throughout our training center network in various cities in China, major ones include, Beijing, Shanghai, Guangzhou, Shenzhen and Chengdu, all of which are leased. We also own 2,124 square meters office space, with 1,062 square meters for each of the two floors at Tower E, 6 Gongyuan West Street, Jian Guo Men Nei, Beijing 100005, China ("Gongyuan Real Estate Property"). As of the date of this annual report, the office space on the 8<sup>th</sup> floor and 16<sup>th</sup> floor of the Gongyuan Real Estate Property have not been occupied. We believe our existing facilities are adequate for our current requirements and that additional space can be obtained on commercially reasonable terms to meet our future requirements.

#### ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

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

##### A. Operating Results

###### Overview

###### *Our Business*

Historically, we generated revenues primarily from our computer-based testing services, online education services and other related services. On August 16, 2018, we completed the sale of the ATA Online Business, which historically operated our computer-based testing services, online education services and other related services. As a result, the operating results of the ATA Online Business have been retrospectively reclassified as discontinued operations for the fiscal year ended December 31, 2018. After the completion of the Huanquiyimeng Acquisition, we generated revenues primarily from our portfolio training services, research-based learning services, overseas study counselling services, other educational services, K-12 education assessment and other services. In addition, as a result of the adoption of new revenue guidance Accounting Standards Codification Topic 606, effective January 1, 2018 ("ASC 606"), rental income was reclassified into other operating income, net, and related costs were also reclassified from cost of revenues to other operating income, net.

Our net revenues were RMB 1.3 million, RMB 97.8 million and RMB 162.2 million (\$24.9 million) in the fiscal years ended December 31, 2018, 2019 and 2020, respectively. We had net income of RMB 850.6 million, net loss of RMB 129.2 million and net loss of RMB 100.6 million (\$15.4 million) in the fiscal years ended December 31, 2018, 2019 and 2020, respectively.

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

The key factors affecting our results of operations presented in this annual report are:

- overall economic growth and rising income levels in China contributing to the increasing spending on education and related services;
- potential changes in regulations and policies that may directly or indirectly impact the scope and credibility of services we could deliver;
- our capability to develop and create content that can accommodate needs of potential students;
- our ability to provide effective creative arts related international education services and control sales and marketing expenses;
- recognition in the marketplace for services we deliver and branding we have established; and
- competition from both established brands and new entrants, and our ability to maintain our market share in the face of increasing competition.

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

- the impacts of our sale of the ATA Online Business;
- the impacts of the Huanquiyimeng Acquisition;
- our share-based compensation;
- the impacts of PRC tax policies, including certain preferential tax rates;
- the impact of the termination of Beijing Biztour acquisition and the receipt (or failure to receive) of the related receivables;
- the relative proportion of our net revenues derived from higher- and lower-gross margin service offerings;
- the impacts of strategic investments and acquisitions;
- our ability to maintain our brand;

- competition from both established brands and new entrants, and our ability to maintain our market share in the increasing competition;
- our ability to maintain similar margin, sourcing students, etc.;
- the impact of political tensions between the United States and China; and
- the impact of COVID-19 or other similar pandemic or natural disasters. Please see “Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in the People’s Republic of China— The outbreak of COVID-19 and any future outbreak of severe acute respiratory syndrome, avian flu or coronavirus in China, or similar adverse public health developments, may disrupt our business and operations and adversely affect our financial results” in this annual report for more details.

## Net Revenues

We derived revenues primarily from our portfolio training services, research-based learning services, overseas study counselling services, other educational services, K-12 education assessment and other services in fiscal year ended December 31, 2020. Our net revenues are presented net of PRC business taxes and value added tax. The following table sets forth our net revenues from our continuing operations for the periods presented.

The COVID-19 outbreak in China occurred in late January 2020, therefore, it did not have a material adverse impact on our revenues for the fiscal year ended December 31, 2019. It, however, has material adverse impacts on our revenues for the fiscal year ended December 31, 2020. See “Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in the People’s Republic of China— The outbreak of COVID-19 and any future outbreak of severe acute respiratory syndrome, avian flu or coronavirus in China, or similar adverse public health developments, may disrupt our business and operations and adversely affect our financial results”.

	For the fiscal year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
<b>Net Revenues</b>				
Portfolio training services	—	63,829	113,191	17,347
Research-based learning services	—	10,456	4,453	682
Overseas study counselling services	—	8,092	21,060	3,228
Other educational services	—	9,045	20,026	3,069
K-12 education assessment and other services	1,339	6,348	3,438	527
<b>Total net revenues</b>	<b>1,339</b>	<b>97,770</b>	<b>162,168</b>	<b>24,853</b>

### Portfolio Training Services.

We derive portfolio training services revenues primarily from fees charged to our students, mainly including high school and undergraduate students, in the form of delivering training programs. Our portfolio training programs consist of time-based programs and project-based programs. Students who elect the time-based programs enroll in a certain number of consulting/training hours, whereas students who elect the project-based programs have no consulting/training hour constraint but will be guided through a certain number of projects needed to complete a portfolio. Under project-based programs, the number of credit hours required to complete a project may vary depending on the background and requirements of the students.

The most significant factors that affect our revenues from portfolio training services include the amount of credit hours for portfolio training we deliver to our students, the number of individual students who enroll in our portfolio training services and the unit price level that we charge our students.

### Research-based learning services.

We derive research-based learning services revenue primarily from research-based learning services fee charged to our students, mainly consisting of our portfolio training students and other students interested in educational travels and research-based learning projects. Currently research-based learning services are primarily delivered online under the circumstance of COVID-19 in 2020, which include academic educational learning, workshop programs, themed educational travel services and transferrable credit courses. Currently, research-based learning services are conducted mainly in summer time with a lesser amount in winter and the other seasons during the year.

The most significant factors that affect our revenues from research-based learning services include the number of individual students who enroll in our research-based learning services, volume of our services rendered and the unit price level that we charge our students.

#### Overseas Study Counselling Services

We derive overseas study counselling services revenue primarily from overseas study counselling services fee charged from students who intend to pursue overseas art and creativity education through providing relevant consulting services in the following aspects: timetable customization, university and program selection, paperwork writing, interview simulation and enrollment documents preparation, etc.

The most significant factors that affect our revenues from overseas study counselling services include the number of individual students who enroll in our counselling services, the unit price level that we charge our students and measurement of progress for services delivered during the reporting period.

#### Other Educational Services

We derived our other educational services revenues primarily from services provided to students for language training, junior art education and in-school classes. Language training services are mainly provided to students who need to take language tests in order to apply for overseas schools or universities. Junior art education services are designed to provide art-related tutoring courses for junior students from age 3 to 12, and in-school classes are designed to partner with international schools to provide professional art courses in the in-school art-related classes.

The most significant factors that affect our other educational services revenues include the unit price level of various other educational services that we charge our students, the amount of credit hours we deliver to our students and the measurement of progress for various services delivered during reporting periods.

#### K-12 Education Assessment and Other Services

We derived K-12 education assessment and other services revenue primarily from fees charged to our customers, including schools, education bureaus and various education institutions, and our services include delivering the assessment reports of the test takers to our customers. Revenues from K-12 education assessment and other services are recognized when we deliver the reports to our customers.

The most significant factors that affect our revenues from K-12 education assessment and other services include unit price level that we charge our customers and sales volume of our K-12 education assessment and other services.

We have experienced and expect to continue to experience slight seasonal fluctuations in our revenues and results of operations, with the quarter ending March 31 typically having relatively lower revenues compared with the other quarters. This is primarily because fewer students take classes in January and February due to spring festival holidays in China and that some students have already completed their application for overseas art programs in December of the previous year. We expect quarterly fluctuations in our revenues and results of operations to continue.

### **Cost of Revenues**

Our cost of revenues consists primarily of payroll and compensation to our teachers, salary and compensation to other operational staffs, rental cost of our training centers and offices, cost of teaching materials and outsourcing services costs, all of which are directly attributable to the rendering of various services. The following table shows our cost of revenues and gross profit from our continuing operations for the periods presented:

	For the fiscal year ended December 31,					
	2018		2019		2020	
	RMB	%	RMB	%	RMB	US\$
	(In thousands, except for percentages)					
Net Revenues	1,339	100.0%	97,770	100.0%	162,168	24,853
Cost of Revenues	4,251	317.5%	61,914	63.3 %	98,521	15,099
Gross Profit (Loss)	(2,912)	(217.5)%	35,856	36.7 %	63,647	9,754

Cost of revenues primarily consist of (1) teaching fees, payroll and compensation to teaching support staff and administrative staff from training centers, performance-linked bonuses paid to teachers and rental payments for training centers as well as costs of course materials and teaching aids for portfolio training services, (2) payroll compensation, outsourcing service costs, lodging and transportation expenses, overseas expenses, and other related costs which are directly attributable to the provision of research-based learning services and overseas study counselling services, and (3) teaching fees, payroll compensation, content development costs, and other related costs, which are directly attributable to the rendering of other educational services and K-12 education assessment and other services.

#### ***Factors Affecting Gross Margin***

Our gross margin is primarily affected by unit price and the number of credit hours delivered for our portfolio training and other educational services, pricing and volume of our other services rendered mainly for the research-based learning and overseas art study counselling services, payroll and compensation to our teachers, salary and compensation to other operational staffs, costs paid to service providers, the rental costs of our training centers and offices, as well as costs of teaching materials and teaching supporting fees.

#### **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, traveling expenses, administration and share-based compensation expenses for our administrative, management and finance personnel, as well as other expenses including professional fees, office expenses and rental costs.

##### ***Sales and Marketing Expenses***

Our sales and marketing expenses consist primarily of salaries and benefits, traveling expenses, and share-based compensation expenses for our sales and marketing personnel, as well as other expenses including meeting and conference expenses, advertising and promotional expenses, commissions for sales channels, online channel platform expenses, entertainment expenses and other sales and marketing expenses.

##### ***Research and Development Expenses***

Our research and development expenses consist primarily of the costs of equipment used in our research and development activities, salaries and benefits, traveling expenses and share-based compensation expenses for our research and development personnel, the costs of outsourcing services and other costs relating to the design, development, testing and enhancement of technology systems (such as the CRM system) in support for the rendering of our products and services.

#### **Impairment Loss of Long-term Investments**

For equity method investments, we recognize an impairment loss when there is a decline in value below the carrying value of the equity method investment that is considered to be other than temporary. The process of assessing and determining whether impairment on an investment is other than temporary requires significant amount of judgment. To determine whether an impairment is other than temporary, management considers whether it has the ability and intent to hold the investment until recovery and whether evidence indicating the carrying value of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the decline in value, any change in value subsequent to the period end, and forecasted performance of the investee.

For other equity investments without a readily determinable fair value, we make a qualitative assessment considering the impairment indicators to evaluate whether an equity investment without a readily determinable fair value is impaired at each reporting period, and write it down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value.

#### **Other Operating Income, Net**

We recognized revenues from operating lease on a straight-line basis over the lease term and reported under “net revenues” for the reporting periods prior to January 1, 2018. For the fiscal years ended December 31, 2018, 2019 and 2020, rental income net of rental cost was classified as “other operating income, net” as a result of the adoption of new revenue guidance ASC 606, effective January 1, 2018.



## **Taxation**

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

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

### ***Hong Kong***

Xing Wei did not derive any income that is subject to Hong Kong profits tax for the fiscal years ended December 31, 2018, 2019 and 2020. Accordingly, no provision for Hong Kong profits tax was required. PRC income tax arising from the disposal of an investment in a subsidiary, Zhongxiao Zhixing, which was previously operating in China during the taxable year ended December 31, 2018 was filed and fully paid to the relevant PRC tax authorities in 2018. The payment of dividends by Hong Kong companies is not subject to any Hong Kong withholding tax.

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

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

**Enterprise income tax.** EIT Law imposes an income tax rate of 25% on all enterprises, including foreign-invested enterprises. Under the EIT Law, qualified HNTE are entitled to a preferential income tax rate of 15% and subject to an annual self-assessment review during the valid period of their HNTE certificates. If an HNTE enterprise does not satisfy the related requirements stipulated by SAT to enjoy the preferential income tax rate of 15% during the annual self-assessment review, it will not be able to implement the preferential income tax rate for the tax year being assessed. In December 2008, ATA Education obtained an HNTE certificate with a valid period of three years retrospectively starting from January 1, 2008 and renewed the certificates in 2011, 2014, and 2017 for another three years, respectively. As a result, ATA Education was entitled to a preferential income tax rate of 15% from 2008 through 2019. In December 2020, ATA Education received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2020 to December 31, 2022. In December 2009, Muhua Shangce obtained an HNTE certificate with a valid period of three years retrospectively starting from January 1, 2009 and renewed the certificates in 2012, 2015, and 2018 for another three years, respectively. As a result, Muhua Shangce was and will be entitled to a preferential income tax rate of 15% from 2009 through 2020. Muhua Shangce is currently in the process of renewing its HNTE certificate for another three years. In the event ATA Education and Muhua Shangce are unable to meet all of the requirements stipulated by the SAT to enjoy the preferential income tax rate of 15% during the annual self-assessment review when holding the HNTE certificate or fail to renew their HNTE certificates after expiration, they will be subject to the standard statutory enterprise income tax rate of 25%. See Item 3.D. “Key Information—Risk Factors—Risks Relating to Regulations of Our Business—The discontinuation of any of the preferential tax treatments currently enjoyed by our subsidiaries in China could materially increase our tax obligations.” ATA Intelligent Learning, Huanqiyimeng and its PRC subsidiaries are all subject to an income tax rate of 25%.

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

In addition, since January 1, 2008, the EIT Law has revoked the exemption of withholding tax on dividends paid by a PRC enterprise to its foreign investors under the old tax law and its Implementation Rules provide that a withholding tax of 10% (or other applicable withholding tax rates based on tax treaties between the PRC and other jurisdictions) will generally be applicable to dividends payable to foreign investors. To the extent we and our overseas entities are not considered as PRC resident enterprises, the dividends that our PRC subsidiaries pay to us will be subject to this withholding tax. See Item 3.D. “Key Information—Risk Factors—Risks Relating to Regulations of Our Business—Under the EIT Law, we may be classified as a ‘resident enterprise’ of China. Such classification will likely result in unfavorable tax consequences to us and U.S. holders of our ADSs or common shares.” Undistributed earnings generated before January 1, 2008 will be exempt from withholding tax when such earnings are distributed to foreign investors. As of December 31, 2017, we had accrued withholding tax of RMB 22,797,747 on undistributed earnings of RMB 227,977,473 generated by our PRC consolidated entities since January 1, 2008. As a result of the sale of the ATA Online Business, the withholding tax of RMB 22.8 million accrued from the disposed entities in China has been recorded under discontinued operations. As of December 31, 2018, 2019 and 2020, the Company has not provided for income taxes on earnings of RMB 71,323,502, RMB 6,233,021 and RMB 2,270,928 respectively, generated by its PRC consolidated entities, as the Company plans to reinvest these earnings indefinitely in the PRC. We announced a special cash dividend of US\$3.00 per common share, or US\$6.00 per ADS on August 8, 2018. On December 21, 2017, the China Ministry of Finance (“MOF”), SAT, National Development and Reform Commission and Ministry of Commerce jointly released Cai Shui [2017] No. 88 (the “No. 88 Notice”). The No. 88 Notice formally introduces a tax measure which allows foreign investors to enjoy withholding tax deferral treatment (“WHT deferral treatment”), on the direct re-investment of profits distributed from Chinese tax resident enterprises into China’s “encouraged projects.” If the foreign investor qualifies for the WHT deferral treatment, the Chinese subsidiary of the related foreign investor should submit the required documents to its tax authorities on behalf of the foreign investor. Upon completion of the filing, the Chinese subsidiary could suspend withholding the profits distributed to the foreign investor. According to the No. 88 Notice, the WHT deferral treatment is applicable retroactively to January 1, 2017, and withholding tax payments already made on eligible re-investments are eligible for refund within three years of the withholding tax payment. On October 29, 2018, the SAT released [2018] No. 53 announcement, which expands the scope of foreign-invested Chinese subsidiaries that are eligible to apply for WHT deferral treatment to potentially all companies and specified the detailed application process and measures.

ATA Education has submitted an application for WHT deferral treatment under the above rules in August 2018 and obtained the approval from the relevant tax authority to re-invest approximately RMB 85.1 million from ATA Learning to ATA Education with the 10% withholding tax suspended for payments based on the board resolution of the common foreign parent company of ATA BVI.

Under applicable Chinese tax laws, foreign-invested enterprises and domestic Chinese companies may carry forward tax losses up to five years. On July 11, 2018, the MOF and SAT jointly released Cai Shui [2018] No. 76, which provides that since January 1, 2018, HNTe or technology-based small-medium size enterprises are eligible to carry forward tax losses up to ten years instead of five years.

ATA Education and Muhua Shangce, as HNTes are eligible to apply for the above preferential tax rules and carry forward tax losses up to ten years. In view of the accumulated losses of certain of our PRC subsidiaries, as of December 31, 2020, we provided the full valuation allowance for their deferred income tax assets after consideration of the future reversal of existing taxable temporary differences.

None of Huanquiyimeng and its PRC subsidiaries are HNTes and all of them are subject to an income tax rate of 25% in accordance with PRC tax laws.

*PRC Value Added Tax (“VAT”).* On March 24, 2016, the MOF and SAT promulgated the Circular Regarding Overall Promotion of Pilot Practice of Replacing Business Tax with Value Added Tax, effective on May 1, 2016. The net revenues (i.e. VAT excluded) generated from services provided by our PRC subsidiaries are generally subject to VAT at a rate of 6%, with some of our small-scale taxpaying subsidiaries subject to VAT at a rate of 3%.

#### **Critical Accounting Policies**

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

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

- 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.

## **Goodwill**

### *Periods prior to January 1, 2020*

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired in a business combination. Goodwill is reviewed for impairment at least annually based on our reporting units, which are defined as operating segments or one level below operating segments (also known as components). Prior to performing the two-step goodwill impairment test, we perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If this is the case, a two-step goodwill impairment test is required. If it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, a two-step goodwill impairment test is not required.

If a two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit's goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

Annual impairment review over goodwill was performed as of December 31 each year, and when a triggering event occurs between annual impairment tests.

### *Periods commencing January 1, 2020*

In connection with the adoption of ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment as of January 1, 2020, the goodwill impairment test was simplified by comparing the fair value of a reporting unit with its carrying amount and an impairment charge is measured as the amount by which the carrying amount exceeds the fair value of such reporting unit. This involves estimating the fair value of the reporting units using discounted cash flow models, which includes significant assumptions about forecasted revenue growth rate, forecasted operating margin and discount rate. We adopted ASU 2017-04 on January 1, 2020. The adoption did not have a material impact on our consolidated financial statements.

### **Impairment of long-lived assets, excluding goodwill**

Long-lived assets, including property and equipment, intangible assets, other non-current assets subject to amortization and right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by such asset or asset group to its carrying value. If the carrying value of such long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. The fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

### **Revenue Recognition**

We generated revenue primarily from our portfolio training services, research-based learning services, overseas study counselling services, and other educational services through our training center network in China and abroad as a result of Huanqiuyimeng Acquisition on August 6, 2019. Prior to the consummation of the sale of the ATA Online Business, we primarily provided computer-based testing services, online education services and other related services, which have been classified and reported under discontinued operations for all the periods presented.

Prior to January 1, 2018, revenues were recognized under the revenue guidance of Accounting Standards Codification Topic 605 when all of the following have occurred: (i) persuasive evidence of an agreement with the customer exists; (ii) services have been performed and/or delivery of goods has occurred; (iii) the fees for services performed and/or price of goods sold are fixed or determinable; and (iv) collectability of the fees and/or sales proceeds is reasonably assured.

We adopted ASC 606, *Revenue from Contracts with Customers*, from January 1, 2018 using the modified retrospective method. In accordance with ASC 606, revenues were recognized upon the satisfaction of its performance obligation (upon transfer of control of promised goods or services to customers) in an amount that reflects the consideration to which we expect to be entitled to in exchange for those goods or services, excluding amounts collected on behalf of third parties (for example, value added taxes).

Under ASC 606, we are required to estimate variable consideration, the determination of stand-alone selling prices ("SSP") of performance obligations, and measurement of progress towards completion in revenue recognition.

In making the estimate of variable consideration, we apply judgments which are inherently subjective. This includes the assessment of the final outcome of the performance targets and our historical experience and performance. The amount of estimated variable consideration included in the transaction price is limited only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable condition is subsequently resolved. We review these estimates on a regular basis. Any changes in these factors which affect the estimated variable consideration and revenue recognized are applied prospectively.

The contracts with customers also include promises to transfer multiple services. Judgment is required to determine the SSP for each distinct performance obligation. In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that may include market conditions and other observable inputs. For contracts with variable consideration, we determine that variable consideration is allocated according to the method as described above, because variable consideration is attributable to all of the performance obligations in a contract.

For each performance obligation satisfied over time, revenues were recognized over time by measuring the progress toward complete satisfaction of that performance obligation, including:

- Portfolio training services. Revenue is recognized over a period of time based on the number of training hours expended and total hours of training under the contract with the students. Under project-based programs, the number of hours of trainings required to complete a project is not pre-determined and varies depending on the background and requirements of individual students. We reassess the total hours of training pursuant to each contract of project-based program with individual student on a quarterly basis. Any adjustments arising from the changes of estimated training hours are applied prospectively.
- Research-based learning services. Revenue is recognized when control of promised services is transferred to the customers in an amount of consideration to which the Group expects to be entitled in exchange for those services.
- Overseas study counselling services. Revenue is recognized over the service period on the basis of costs incurred to-date to the total estimated costs.
- Other educational services. Revenue is recognized when control of promised services is transferred to customers in an amount of consideration to which we expect to be entitled to in exchange for those services.
- Revenue from K-12 education assessment services and content development is recognized when we deliver the reports or developed content to customers, which is when the control over the report or the content has been transferred to customers.

#### ***Business Combination***

Business combinations are recorded using the acquisition method of accounting in accordance with ASC Topic 805: *Business Combinations*. The acquisition method of accounting requires an acquirer to determine the identifiable acquired assets, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. The consideration transferred for an acquisition is measured against the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations as of the acquisition date. The costs directly attributable to an acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total of cost of the acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

#### ***Income Taxes***

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

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

For each of the fiscal years ended December 31, 2018, 2019 and 2020, 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.

As of December 31, 2020, the valuation allowance of RMB 56.2 million (\$8.6 million) was related to the deferred income tax assets of our PRC entities which were in loss position. As of December 31, 2020, we believe it is more likely than not that we will realize the deferred income tax assets, net of the valuation allowance.

#### ***Share-based payment***

We measure the cost of employee share options or similar equity instruments based on the grant date fair value of the award and recognize that cost over the period during which an employee is required to provide services in exchange for the award, which generally is the vesting period. For the graded vesting share options and non-vested shares, we recognize the compensation cost over the requisite service period for each separately vesting portion of the award as if the award is, in substance, multiple awards. Awards granted to employees with performance conditions attached are measured at fair value on the grant date and are recognized as the compensation expenses in the period and thereafter when the performance goal becomes probable to achieve.

When no future services are required to be performed by an employee in exchange for an award of equity instruments, and if such award does not contain a performance or market condition, the cost of the award is expensed on the grant date. When there is a modification on the terms and conditions of an award of equity instruments, our company measures the pre-modification and post-modification fair value of the equity instruments as of the modification date and recognizes the incremental value as compensation cost over the remaining service period. For vested options, we recognize incremental compensation cost in the period the modification occurred. For unvested options, we recognize, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. Cancellations in the vesting period are treated as an acceleration of vesting, and recognized immediately for the amount that would otherwise have been recognized for services over the vesting period.

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

#### ***Long-term investments***

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

*Other equity investments.* Prior to January 1, 2018, we accounted for other equity investments without a readily determinable fair value using the cost method. In connection with the adoption of the ASC 321 *Investment- Equity Security* as of January 1, 2018, we have elected to measure such investments at cost, adjusted for changes resulting from impairments and observable price changes in orderly transactions for identical or similar securities of the same issuer. We consider information in periodic financial statements and other documentation provided by the investees to determine whether observable price changes have occurred.

We regularly evaluate the impairment of the long-term investments based on performance and financial position of the investees, as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investees' cash position, recent financings, projected and historical financial performance, cash flow forecasts and financing needs. For equity method investments, an impairment charge is recorded when carrying amount of the investment exceeds its fair value and such condition is determined to be other than temporary. For other equity investments, an impairment charge is recorded if a qualitative assessment indicates that the investment is impaired, and the fair value of the investment is less than its carrying value.

## Results of Operations

The following table and period to period comparison and discussion sets forth a summary, for the periods presented, of our consolidated results of operations and with each item expressed as a percentage of our total net revenues. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period, and since the results for the fiscal year ended December 31, 2018 include the ATA Online Business as discontinued operations and do not include any of the results of our businesses conducted by Huanqiuyimeng, which was acquired by us in 2019, and the results for the year ended December 31, 2019 only include the results of our businesses conducted by Huanqiuyimeng from the Acquisition Date to December 31, 2019, and the results for the year ended December 31, 2020 include the results of our businesses conducted by Huanqiuyimeng for the whole year, the following results and discussion may not be representative of our future operations.

### Discontinued Operations

According to the Accounting Standards Codification Topic 205, the effect of discontinued operations of computer-based testing services, online education services and other related services for the fiscal years ended December 31, 2018, 2019 and 2020 has been accounted for in the consolidated statement of operations for all the periods presented. The gain from the disposal of discontinued operations, net of income taxes, recorded for the year ended December 31, 2019, was to account for the reimbursement of legal and consulting expenses received from the buyer in relation to the sale of the ATA Online Business. Results from operations of discontinued operations, net of income tax, were loss of RMB 19.0 million, income of RMB nil and RMB nil in the fiscal years ended December 31, 2018, 2019 and 2020, respectively.

	For the fiscal year ended December 31					
	2018		2019		2020	
	RMB	% of net revenues	RMB	% of net revenues	RMB	US\$ % of net revenues
(In thousands, except for percentages)						
Net revenues	1,339	100.0 %	97,770	100.0 %	162,168	24,853 100.0 %
Cost of revenues	4,251	317.5 %	61,914	63.3 %	98,521	15,099 60.8 %
<b>Gross profit (loss)</b>	<b>(2,912)</b>	<b>(217.5)%</b>	<b>35,856</b>	<b>36.7 %</b>	<b>63,647</b>	<b>9,754 39.2 %</b>
Operating expenses:						
Research and development	19,594	1,463.3 %	11,817	12.1 %	8,832	1,354 5.4 %
Sales and marketing	5,570	416.0 %	34,112	34.9 %	53,500	8,199 33.0 %
General and administrative	43,508	3,249.3 %	81,924	83.8 %	100,098	15,341 61.7 %
Impairment loss of intangible assets and other non-current assets	—	—	8,932	9.1 %	3,121	478 1.9 %
Provision for loan receivable and other receivables	—	—	17,431	17.8 %	5,904	905 3.6 %
<b>Total operating expenses</b>	<b>68,672</b>	<b>5,128.6 %</b>	<b>154,216</b>	<b>157.7 %</b>	<b>171,455</b>	<b>26,277 105.7 %</b>
Other operating income, net	3,793	283.3 %	588	0.6 %	330	51 0.2 %
<b>Loss from continuing operations</b>	<b>(67,791)</b>	<b>(5,062.8)%</b>	<b>(117,772)</b>	<b>(120.5)%</b>	<b>(107,478)</b>	<b>(16,472) (66.3)%</b>
Loss on disposal of subsidiaries and others	—	—	(8)	(0.0)%	(1,768)	(271) (1.1)%
Impairment loss of long-term investments	(6,381)	(476.5)%	(26,815)	(27.4)%	(1,726)	(265) (1.1)%
Change in fair value of long-term investment	2,750	205.4 %	—	—	—	— —
Interest income, net of interest expenses	2,409	179.9 %	3,282	3.4 %	1,172	180 0.7 %
Foreign currency exchange gains (losses), net	960	71.7 %	51	0.1 %	(1,053)	(161) (0.6)%
<b>Income (Loss) from continuing operations before income taxes</b>	<b>(68,053)</b>	<b>(5,082.4)%</b>	<b>(141,262)</b>	<b>(144.5)%</b>	<b>(110,853)</b>	<b>(16,989) (68.4)%</b>
Income tax benefit	—	—	(7,150)	(7.3)%	(10,268)	(1,574) (6.3)%
<b>Income (Loss) from continuing operations, net of income taxes</b>	<b>(68,053)</b>	<b>(5,082.4)%</b>	<b>(134,112)</b>	<b>(137.2)%</b>	<b>(100,585)</b>	<b>(15,415) (62.0)%</b>
Loss from operations of discontinued operations, net of income taxes	(18,951)	(1,415.3)%	—	—	—	— —
Gain from disposal of discontinued operations, net of income taxes	937,606	70,022.9 %	4,894	5.0 %	—	— —
<b>Income from discontinued operations, net of income taxes</b>	<b>918,655</b>	<b>68,607.5 %</b>	<b>4,894</b>	<b>5.0 %</b>	<b>—</b>	<b>— —</b>
<b>Net income (loss)</b>	<b>850,602</b>	<b>63,525.2 %</b>	<b>(129,218)</b>	<b>(132.2)%</b>	<b>(100,585)</b>	<b>(15,415) (62.0)%</b>
<b>Net income (loss) attributable to ATA Creativity Global</b>	<b>854,926</b>	<b>63,848.1 %</b>	<b>(122,254)</b>	<b>(125.0)%</b>	<b>(92,198)</b>	<b>(14,130) (56.9)%</b>

	For the fiscal year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Basic and diluted earnings (loss) per common share	18.25	(2.52)	(1.57)	(0.24)

## **Fiscal Year Ended December 31, 2020 Compared to Fiscal Year Ended December 31, 2019**

### ***Net Revenues***

Our total net revenues increased by RMB 64.4 million, or 65.9%, to RMB 162.2 million (\$24.9 million) in the fiscal year ended December 31, 2020 from RMB 97.8 million in the fiscal year ended December 31, 2019, primarily due to the fact that net revenues of prior-year period include approximately five months of contributions from the Huanquiuyimeng business as the Company obtained the control of Huanquiuyimeng on August 6, 2019. Net revenues of RMB 158.7 million was contributed by Huanquiuyimeng business for the year ended December 31, 2020, out of which RMB 113.2 million was generated from our primary service line of portfolio training services, whereas net revenues of RMB 91.4 million was contributed by the acquired Huanquiuyimeng business for the Partial Year 2019, out of which RMB 63.8 million was generated from our primary service line of portfolio training services.

### ***Cost of revenues***

Our cost of revenues increased by RMB 36.6 million, or 59.1%, to RMB 98.5 million (\$15.1 million) in the fiscal year ended December 31, 2020 from RMB 61.9 million in the fiscal year ended December 31, 2019, primarily due to the same reason as stated above for net revenues. Cost of revenues of RMB 93.9 million was contributed from the Huanquiuyimeng business for the year ended December 31, 2020, out of which RMB 71.7 million was incurred by our portfolio training services, whereas cost of revenues of RMB 56.1 million was contributed from the acquired Huanquiuyimeng business for the Partial Year 2019, out of which RMB 40.4 million was incurred by our portfolio training services.

### ***Gross Profit (Loss)***

Our gross profit increased by RMB 27.7 million, or 77.5%, to RMB 63.6 million (\$9.8 million) in the fiscal year ended December 31, 2020 from RMB 35.9 million in the fiscal year ended December 31, 2019. The increase was primarily because a full year operation from the Huanquiuyimeng business was included into our consolidated financial statements in the fiscal year ended December 31, 2020, compared with a partial year contribution from Huanquiuyimeng business being included into the consolidated financial statements in 2019 since Acquisition Date.

### ***Operating Expenses***

*General and administrative expenses.* Our general and administrative expenses increased by RMB 18.2 million, or 22.2%, to RMB 100.1 million (\$15.3 million) in the fiscal year ended December 31, 2020 from RMB 81.9 million in the fiscal year ended December 31, 2019, primarily due to general and administrative expenses of RMB 63.0 million incurred by Huanquiuyimeng for a full year 2020, compared with RMB 37.6 million incurred by Huanquiuyimeng for Partial Year 2019, which mainly consists of salaries and share-based compensation expenses paid to our administrative and management personnel, as well as other expenses including professional fees, office expenses and rental costs.

*Sales and marketing expenses.* Our sales and marketing expenses increased by RMB 19.4 million, or 56.8%, to RMB 53.5 million (\$8.2 million) in the fiscal year ended December 31, 2020 from RMB 34.1 million in the fiscal year ended December 31, 2019, primarily due to sales and marketing expenses of RMB 53.1 million incurred by Huanquiuyimeng for a full year 2020, compared with RMB 29.1 million incurred by Huanquiuyimeng for Partial Year 2019, which primarily consists of salaries, compensations, and performance-linked bonuses for our sales and marketing personnel, commission expenses for sales channels, online channel platform expenses as well as other sales expenses including meeting and conference expenses, advertising and promotion expenses, traveling and entertainment expenses, etc..

*Research and development expenses.* Our research and development expenses decreased by RMB 3.0 million, or 25.3%, to RMB 8.8 million (\$1.4 million) in the fiscal year ended December 31, 2020 from RMB 11.8 million in the fiscal year ended December 31, 2019, primarily due to decrease in labor costs of RMB 2.5 million resulting from the reduction in head counts of the research and development department.

*Impairment Loss of Intangible Assets and Other Non-current Assets.* Impairment loss of intangible assets and other non-current assets decreased by RMB 5.8 million, or 65.1%, to RMB 3.1 million (\$0.5 million) in the fiscal year ended December 31, 2020 from RMB 8.9 million in the fiscal year ended December 31, 2019. We recorded a full impairment loss of intangible assets of RMB 3.1 million for the education assessment careware of Muhua Shangce as no cash inflows are anticipated from this intangible asset as at the end of December 31, 2020. Impairment loss of RMB 8.9 million was recorded for the software platform developed under Project Shuang Chuang to reduce carrying amount of the relevant assets for this project to zero in the year ended December 31, 2019.



*Provision for Loan Receivable and Other Receivables.* We recorded provision of RMB 5.9 million (\$0.9 million) and RMB 17.4 million for loan receivable and other receivables due from Beijing Biztour in the fiscal year ended December 31, 2020 and 2019 respectively. As of December 31, 2019, we assessed the collectability of the loan receivable and other receivables and used the fair value of real estate adjusted by the estimated costs to sell to measure impairment and recorded a provision of RMB 17.4 million for the year ended December 31, 2019. We deem the likelihood of collecting the outstanding balance remote and recorded an impairment of RMB 5.9 million to reduce the balance to zero for the year ended December 31, 2020.

#### ***Impairment Loss of Long-term Investments***

Impairment loss of long-term investments decreased by RMB 25.1 million or 93.6%, to RMB 1.7 million (\$0.3 million) in the fiscal year ended December 31, 2020 from RMB 26.8 million in the fiscal year ended December 31, 2019. Impairment loss of RMB 1.7 million (\$0.3 million) recorded in the fiscal year ended December 31, 2020 was associated with two of our long-term investments, which encountered decline in operation results caused by COVID-19 pandemic and shortage of working capital resulted from continuous negative operating cash flows in the fiscal year ended December 31, 2020. The impairment loss of RMB 26.8 million recorded was related to two of our strategic investments, which failed to meet the expected milestones and operation forecasts and encountered shortage of working capital resulted from continuous negative operating cash flows for the year ended December 31, 2019.

#### ***Interest Income, Net of Interest Expense***

Our interest income, net of interest expenses decreased to RMB 1.2 million (\$0.2 million) in the fiscal year ended December 31, 2020 from RMB 3.3 million in the fiscal year ended December 31, 2019, primarily due to decreased interest income derived from lower rate of return of interest on lower average cash balance compared with prior year period.

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

Our net foreign currency exchange gains or losses primarily reflect the foreign exchange fluctuation effects of exchanging between U.S. dollar and Renminbi. We recorded net foreign currency exchange losses of RMB 1.1 million (\$0.2 million) in the fiscal year ended December 31, 2020, compared to a net income of RMB 51,476 in the fiscal year ended December 31, 2019.

#### ***Income Tax Benefit***

Income tax benefit increased by RMB 3.1 million, or 43.6% to RMB 10.3 million (\$1.6 million) in the fiscal year ended December 31, 2020 from RMB 7.1 million in the fiscal year ended December 31, 2019. The income tax benefit recorded in both fiscal years was primarily related to effects of amortization of the difference between tax basis and accounting basis of the intangible assets and deferred revenues recorded in connection with Huanquiyimeng Acquisition.

#### ***Income (Loss) from Continuing Operations, net of Income Taxes***

Loss from continuing operations, net of income taxes, for the fiscal year ended December 31, 2020, was RMB 100.6 million (\$15.4 million), as compared to RMB 134.1 million in the prior year period.

#### ***Net Income (Loss)***

As a result of the above factors, we had net loss of RMB 100.6 million (\$15.4 million) in the fiscal year ended December 31, 2020, compared to net loss of RMB 129.2 million in the fiscal year ended December 31, 2019.

We had basic and diluted loss per common share of RMB 1.57 (\$0.24) in the fiscal year ended December 31, 2020 compared to basic and diluted loss per common share of RMB 2.52 in the fiscal year ended December 31, 2019.

### **Fiscal Year Ended December 31, 2019 Compared to Fiscal Year Ended December 31, 2018**

#### ***Net Revenues***

Our total net revenues increased by RMB 96.5 million, or 7,201.7%, to RMB 97.8 million in the fiscal year ended December 31, 2019 from RMB 1.3 million in the fiscal year ended December 31, 2018, primarily due to the net revenues of RMB 91.4 million contributed by the acquired Huanquiyimeng business for the Partial Year 2019, out of which RMB 63.8 million was generated from our primary service line of portfolio training services.

### ***Cost of revenues***

Our cost of revenues increased by RMB 57.7 million, or 1,356.5%, to RMB 61.9 million in the fiscal year ended December 31, 2019 from RMB 4.3 million in the fiscal year ended December 31, 2018, primarily due to the cost of revenues of RMB 56.1 million contributed from the acquired Huanquiyimeng business for the Partial Year 2019, out of which RMB 50.4 million was generated from our portfolio training services, research-based learning services and overseas study counselling services.

### ***Gross Profit (Loss)***

Our gross profit increased by RMB 38.8 million, or 1,331.3%, to RMB 35.9 million in the fiscal year ended December 31, 2019 from gross loss of RMB 2.9 million in the fiscal year ended December 31, 2018. The increase was primarily contributed by gross profit amounting to RMB 35.3 million of the acquired Huanquiyimeng business, whose Partial Year 2019 operation results were incorporated into our consolidated financial statements after the Acquisition Date.

### ***Operating Expenses***

*General and administrative expenses.* Our general and administrative expenses increased by RMB 38.4 million, or 88.3%, to RMB 81.9 million in the fiscal year ended December 31, 2019 from RMB 43.5 million in the fiscal year ended December 31, 2018, primarily due to general and administrative expenses of RMB 37.6 million incurred by Huanquiyimeng for the Partial Year 2019, which consists primarily of salaries and share-based compensation expenses paid to our administrative and management personnel, as well as other expenses including professional fees, office expenses and rental costs.

*Sales and marketing expenses.* Our sales and marketing expenses increased by RMB 28.5 million, or 512.4%, to RMB 34.1 million in the fiscal year ended December 31, 2019 from RMB 5.6 million in the fiscal year ended December 31, 2018, primarily due to sales and marketing expenses of RMB 29.1 million incurred by Huanquiyimeng for the Partial Year 2019, which primarily consists of salaries, compensations, and performance-linked bonuses for our sales and marketing personnel, commission expenses for sales channels, online channel platform expenses as well as other sales expenses including meeting and conference expenses, advertising and promotion expenses, traveling and entertainment expenses, etc.

*Research and development expenses.* Our research and development expenses decreased by RMB 7.8 million, or 39.7%, to RMB 11.8 million in the fiscal year ended December 31, 2019 from RMB 19.6 million in the fiscal year ended December 31, 2018, primarily due to decrease in labor costs of RMB 6.1 million resulting from the reduction in head counts of the research and development department.

*Impairment Loss of Intangible Assets and Other Non-current Assets.* We recorded an impairment loss of intangible assets and other non-current assets of RMB 8.9 million for the software platform developed under Project Shuang Chuang in the year ended December 31, 2019, primarily because we anticipate no cash inflow nor alternative use from the platform in the near future. Therefore, full impairment was recorded to reduce carrying amount of the relevant assets recognized for this project to zero as of December 31, 2019.

*Provision for Loan Receivable and Other Receivables.* Our provision for loan receivable and other receivables increased by RMB 17.4 million, or 100.0%, in the fiscal year ended December 31, 2019 from RMB nil in the fiscal year ended December 31, 2018. We provided a loan of \$2.0 million and advances of approximately RMB 7.5 million to Beijing Biztour, a company we previously anticipated to acquire. The acquisition was terminated by us in March 2019 due to certain closing conditions were not met by its selling shareholder. As of December 31, 2019, we assessed the collectability of the loan receivable and other receivables due from Beijing Biztour and used the fair value of real estate adjusted by the estimated costs to sell to measure impairment and recorded a provision of RMB 17.4 million for the year ended December 31, 2019.

### ***Impairment Loss of Long-term Investments***

Our impairment loss of long-term investments increased by RMB 20.4 million, or 320.2%, to RMB 26.8 million in the fiscal year ended December 31, 2019 from RMB 6.4 million in the fiscal year ended December 31, 2018. We recorded an impairment loss of RMB 26.8 million in the fiscal year ended December 31, 2019 related to impairment charges associated with two of our strategic investments, which failed to meet the expected milestones and operation forecasts and encountered shortage of working capital resulted from continuous negative operating cash flows in the fiscal year ended December 31, 2019.

### ***Interest Income, Net of Interest Expense***

Our interest income, net of interest expenses increased to RMB 3.3 million in the fiscal year ended December 31, 2019 from RMB 2.4 million in the fiscal year ended December 31, 2018, primarily due to increased interest income derived from higher rate of return of interest on our average cash balance.

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

Our net foreign currency exchange gains or losses primarily reflect the foreign exchange fluctuation effects of exchanging between U.S. dollar and Renminbi. We recorded a net foreign currency exchange income of RMB 51,476 in the fiscal year ended December 31, 2019, compared to a net income of RMB 1.0 million in the fiscal year ended December 31, 2018.

### ***Income Tax Benefit***

We had an income tax benefit of RMB 7.1 million in the fiscal year ended December 31, 2019, compared to income tax expense of RMB nil in the fiscal year ended December 31, 2018. The income tax benefit recorded in the fiscal year ended December 31, 2019 was related to effects of amortization of the difference between tax basis and accounting basis of the intangible assets and deferred revenues recorded in connection with Huanqiuyimeng Acquisition.

### ***Income (Loss) from Continuing Operations, net of Income Taxes***

Loss from continuing operations, net of income taxes, for the fiscal year ended December 31, 2019, was RMB 134.1 million, as compared to RMB 68.1 million in the prior period.

### ***Net Income (Loss)***

As a result of the above factors, we had net loss of RMB 129.2 million in the fiscal year ended December 31, 2019, compared to net income of RMB 850.6 million in the fiscal year ended December 31, 2018.

We had basic and diluted loss per common share of RMB 2.52 in the fiscal year ended December 31, 2019 compared to basic and diluted earnings per common share of RMB 18.25 in the fiscal year ended December 31, 2018.

## **B. Liquidity and Capital Resources**

We have financed our working capital and capital expenditure needs primarily through cash generated from operating activities and proceeds received from the Private Placement.

As of December 31, 2020, we had RMB 112.7 million (\$17.3 million) in cash. Our cash and cash equivalents were primarily deposited with reputable banks in China and Hong Kong. We intend to finance our future working capital and capital expenditure needs principally from cash generated from future operating activities and possible plans of financings from outside sources including public offerings or private placements.

We believe our expected future cash flows from our operating activities, which are mainly generated from the Huanqiuyimeng business, are sufficient to meet our present working capital requirements. Our current expansion plans do not require significant capital commitments. We do not expect our short-term and long-term cash requirements to be materially different. We do, however, expect to spend money on strategic acquisition and investment opportunities in the international education industry. If any future projects would require additional funding, outside financing might be pursued as needed. Nevertheless, we may require additional sources of liquidity in the event of changes in business conditions or other future developments. Factors affecting our sources of liquidity include our sales performance and changes in working capital. Any changes in the significant factors affecting our revenues from the creative arts related international education services may cause material fluctuations in our cash generated from operations. See Item 5.A. “Operating and Financial Review and Prospectus—Operating Results—Net Revenues” for a description of these significant factors. Changes in working capital, 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 or obtain a credit facility to meet our cash needs. The sale of convertible debt securities or additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

The following table summarizes our net cash flows with respect to operating activities, investing activities and financing activities in the fiscal years ended December 31, 2018, 2019 and 2020:

	For the fiscal year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
Net cash used in operating activities	(312,627 )	(57,876 )	(27,874 )	(4,271 )
Net cash provided by (used in) investing activities	1,201,736	(36,945 )	(19,090 )	(2,926 )
Net cash provided by (used in) financing activities	(949,894 )	57,566	6,303	966
Effect of foreign exchange rate changes on cash	(4,720 )	867	(814 )	(125 )
Net decrease in cash	(65,505 )	(36,388 )	(41,475 )	(6,356 )
Cash and cash equivalents at beginning of the year	256,091	190,586	154,198	23,632
Cash and cash equivalents at end of the year	190,586	154,198	112,723	17,276

#### ***Operating Activities***

Net cash used in operating activities was RMB 27.9 million (\$4.3 million) in the fiscal year ended December 31, 2020, mainly attributable to cash collection from sales of RMB 209.8 million, including RMB 205.2 million from the acquired Huanquiyimeng operations and RMB 4.6 million from other services (primarily from the K-12 education assessment services income and rental income), partially netting off by cash paid for payroll and compensation expenses of RMB 141.1 million and cash paid for other cost and operating expenses of RMB 96.6 million.

Net cash used in operating activities was RMB 57.9 million in the fiscal year ended December 31, 2019, mainly attributable to cash collection from sales of RMB 122.6 million, including RMB 112.0 million from the acquired Huanquiyimeng operations and RMB 10.6 million from other services (primarily from the K-12 education assessment services income and rental income), partially netting off by cash paid for payroll and compensation expenses of RMB 84.0 million and cash paid for other cost and operating expenses of RMB 96.5 million.

Net cash used in operating activities was RMB 312.6 million in the fiscal year ended December 31, 2018, mainly attributable to net cash outflows of RMB 287.5 million from continuing operations, which consists of cash collection of RMB 5.7 million from rental income and RMB 1.5 million from K-12 education assessment and other related services, netting off by cash paid for income tax of RMB 213.0 million, the majority of which was incurred for the sale of the ATA Online Business, and cash paid for payroll and other operating expenses of RMB 81.7 million as well as net cash outflows of RMB 25.1 million from discontinued operations.

#### ***Investing Activities***

Net cash used in investing activities in the fiscal year ended December 31, 2020 of RMB 19.1 million (\$2.9 million) was primarily attributable to cash payment of RMB 15.0 million to the prior minority shareholder of Huanquiyimeng in connection with Huanquiyimeng Acquisition and payments of RMB 4.1 million in connection with renovation in various training centers.

Net cash used in investing activities in the fiscal year ended December 31, 2019 of RMB 36.9 million was primarily attributable to cash payment of RMB 34.7 million made in the Huanquiyimeng Acquisition (less cash acquired), cash payment of RMB 1.3 million for purchasing property and equipment, cash payment of RMB 6.0 million invested in Xiaozhi, netting off by RMB 4.9 million legal and consulting fee reimbursement received in the fiscal year ended December 31, 2019 associated with the sale of the ATA Online Business.

Net cash provided by investing activities in the fiscal year ended December 31, 2018 of RMB 1,201.7 million was primarily attributable to net proceeds from the disposal of discontinued operations of RMB 1,223.0 million.

#### ***Financing Activities***

Net cash provided by financing activities in the fiscal year ended December 31, 2020 of RMB 6.3 million (\$1.0 million) was primarily attributable to RMB 8.5 million proceeds received from the private placement and RMB 19.6 million received from the short-term loans, which was partially offset by repayments of RMB 17.8 million for the short-term loans and payment of RMB 4.0 million for the repurchase of our ADS from the open market.

Net cash provided by financing activities in the fiscal year ended December 31, 2019 of RMB 57.6 million was primarily attributable to RMB 61.7 million received from private placement and RMB 5.0 million capital increase of Muhua Shangce contributed by non-controlling shareholder, netting off by RMB 9.0 million repayment of short-term loans assumed in connection with the Huanquiyimeng Acquisition.

Net cash used in financing activities in the fiscal year ended December 31, 2018 of RMB 949.9 million was primarily attributable to a special cash dividend paid to our shareholders.

### Indebtedness

Huanqiuyimeng has entered into several loan agreements with banks amounting to RMB 14.0 million as of the Acquisition Date to finance part of the operating costs and expenses. As of December 31, 2020, the outstanding balance of bank borrowings was RMB 2.0 million. As of the date of this annual report, we have fully repaid the bank borrowings of RMB 2.0 million. Besides, in order to support its daily operations during COVID-19, Muhua Shangce obtained short-term borrowings from several parties. All the terms of such outstanding loans are within one year. Other than such loans, we do not have any other outstanding debt securities, contingent liabilities, mortgages, or liens.

### Capital Expenditures

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

	For the fiscal year ended December 31, 2018	For the fiscal year ended December 31, 2019	For the fiscal year ended December 31, 2020	
	RMB	RMB	RMB	US\$
	(In thousands)			
Total capital expenditures	9,356	1,285	4,910	753

Historically, our capital expenditures have been made primarily for leasehold improvements, software, computer and office equipment.

### Foreign Currency Exchange

The functional currency of our offshore entities and subsidiaries, including ATA Creativity Global, ATA BVI, Xing Wei and ACGIGL, is the U.S. dollar. The functional currency of our PRC subsidiaries is Renminbi. As of December 31, 2020, we had RMB 112.7 million (\$17.3 million) in cash and cash equivalents. The non-Renminbi portion of our revenues primarily consists of U.S. dollar-denominated royalty payments prior to the sale of the ATA Online Business, while the non-Renminbi portion of our expenditures primarily consists of professional fees and royalty payments, either denominated in U.S. dollars or Hong Kong dollars. After the sale of the ATA Online Business, the non-Renminbi portion of our revenues primarily consists of U.S. dollar and British Pound denominated referral fees paid by overseas schools, institutions and their admission agents as well as service fees collected from students enrolled from overseas, while the non-Renminbi portion of our expenditures primarily consists of professional fees incurred and overseas costs and expenses incurred mainly for research-based learning services, either denominated in U.S. dollars, British Pound or Hong Kong dollars. Fluctuations in exchange rates, primarily those involving the U.S. dollar against the Renminbi, may affect our costs and operating margins and reported operating results. Under the current foreign exchange system in China, our operations in China may not be able to hedge effectively against currency risks, including any possible future Renminbi devaluation. See Item 3.D. “Key Information — Risk Factors — Risks Relating to Doing Business in the People’s Republic of China — Fluctuations in exchange rates could result in foreign currency exchange losses.”

### Recent Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, Income Tax (Topic 740): Simplifying the Accounting for Income Taxes (“ASU 2019-12”). ASU 2019-12 removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for goodwill and allocating taxes to members of a consolidated group. ASU 2019-12 is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the effect of the disclosure requirements of ASU 2019-12 on the Company’s consolidated financial statements.

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

Research and development are important to our continued success. We have devoted significant resources to continuous research and curriculum development. We have a dedicated and experienced research and curriculum development team based at our headquarters consisting of 5 permanent staff and supplemented by professional art teachers as subject experts to analyze market demand, study cutting-edge developments and techniques, and develop the most appropriate curriculum and teaching methods that can help us achieve our goals for providing up-to-date and high quality international educational services. We will continue to look selectively for experienced research and development talents to further increase our research and development capabilities. After the completion of the Huanqiuyimeng Acquisition in 2019, our prior research and development policies applicable to our historically operated computer-based testing services, online education services and other related services do not apply anymore.

### D. Trend Information

Other than as disclosed elsewhere in this annual report and the COVID-19 outbreak (see “Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in the People’s Republic of China— The outbreak of COVID-19 and any future outbreak of severe acute respiratory syndrome, avian flu or coronavirus in China, or similar adverse public health developments, may disrupt our business and operations and adversely affect our financial results”) and the relationship between China and the United States (see “Item 3.D. Key Information—Risk Factors—Risks Relating to Doing Business in the People’s Republic of China— Our business, financial performance and results of operations may be adversely affected by deterioration of the relation between China and the United States”), we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2020 to December 31, 2020 that are reasonably likely to have a material adverse effect on our revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

### E. Off-Balance Sheet Arrangements

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

### F. Tabular Disclosure of Contractual Obligations

#### Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of December 31, 2020:

	Payment Due				
	Total	Within 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands of RMB)				
Operating Lease Obligations (1)	46,450	18,162	19,152	9,136	—
Other commitments (2)	10,000	10,000	—	—	—

- (1) Our operating lease obligations comprise office and training center lease obligations for our offices and training centers in China. These leases expire at different times over the period from the date of this annual report through December 2023 and will become subject to renewal. We will evaluate the need to renew each lease on a case-by-case basis prior to its expiration.
- (2) On April 27, 2017, we entered into a five-year agreement with Tsinghua University, under which we will support the research of the Research Institute of Future Education and Assessment at Tsinghua University under certain circumstances with funding support of RMB 50.0 million. As of the date of this annual report, RMB 10.0 million is still outstanding and will be paid in the following one year.

### G. Safe Harbor

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the Private Securities Litigation Reform Act of 1995. See “Introduction—Forward-Looking Statements.”

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

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

Name	Age	Position
Xiaofeng Ma	57	Chairman of the Board of Directors and Chief Executive Officer
Jun Zhang	48	President and Director
Andrew Yan	63	Director
Hope Ni	48	Director
Alec Tsui	71	Director
Zhilei Tong	46	Director
Amy Tung	49	Chief Financial Officer

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

*Jun Zhang* is the president and a director of our company. Prior to joining us, Mr. Zhang was the founder and president of Huanquiyimeng. With over 20 years of experience in art and creativity education, Mr. Zhang is recognized as an expert in the art and creativity education industry in China. He is a pioneer in the industrialization of international art and creativity education in China and has been active in the fields of both art and vocational training as an educator in China. He has served as the head of the graduate animation program at the Central Academy of Fine Arts' School of City Design and as the director of the digital simulation graduate program at the Beijing Institute of Technology's School of Design and Arts. Mr. Zhang received a bachelor's degree in arts education from Qufu Normal University.

*Andrew Yan* is a director of our company and is an independent director pursuant to Nasdaq Stock Market Rule 5605(a)(2). He is the founding managing partner of SAIF Partners IV, III and SB Asia Investment Fund II L.P., and president and executive managing director of Softbank Asia Infrastructure Fund. Before joining Softbank Asia Infrastructure Fund in 2001, Mr. Yan was a managing director and the head of the Hong Kong office of Emerging Markets Partnership, the management company of AIG Asian Infrastructure Funds from 1994 to 2001. From 1989 to 1994, he worked in the World Bank, the Hudson Institute and US Sprint Co. as an economist, research fellow and director for Asia respectively in Washington, DC. From 1982 to 1984, he was the chief engineer of Jianghuai Airplane Corp. He is currently an independent non-executive director of China Resources Land Limited; an independent director of 360 DigiTech, Inc. (former called 360 Finance, Inc.) and a director of Shenzhen Appotronics Corporation Ltd.. He also holds directorship in several SAIF portfolio companies. Mr. Yan received a master of arts degree from Princeton University, and a bachelor's degree in engineering from the Nanjing Aeronautic Institute.

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

*Alec Tsui* is an independent director on our board and has also served as director on the board of directors of ATA Online from July 2015 to August 2018. Mr. Tsui is currently an independent non-executive director of a number of companies listed in Hong Kong and on the Nasdaq Global Market, including, COSCO Shipping International (Hong Kong) Co Ltd., Pacific Online Limited, Melco Resorts & Entertainment Limited and Hua Medicine. He was the chairman of the Hong Kong Securities Institute from 2001 to 2004. He was an advisor and a council member of the Shenzhen Stock Exchange from 2001 to 2002. He joined the Hong Kong Stock Exchange in 1994 as an executive director of the finance and operations services division and became its chief executive in 1997. Prior to that, Mr. Tsui served at the Securities and Futures Commission of Hong Kong from 1989 to 1993. Mr. Tsui graduated from the University of Tennessee with a B.S. degree and a master's degree in industrial engineering. He completed a program for senior managers in government at the John F. Kennedy School of Government of Harvard University.

*Zhilei Tong* is a director of our board. Mr. Tong founded COL Digital Publishing Group Co., Ltd. in 2000 and is currently the chairman and CEO of COL Digital Publishing Group Co., Ltd. He is also the executive director of Jianshui Wenrui Enterprise Management Consulting Co., Ltd., the executive director and CEO of Beijing COL Culture Media Co., Ltd., the executive director and CEO of Beijing COL Education Technology Development Co., Limited, the executive director of Shanghai COL Culture Development Co., Ltd., the chairman of Hangzhou COL Information Technology Co., Ltd., the executive director of COL (Tianjin) Culture Development Co., Ltd., the chairman of COL (Tianjin) Culture and Education Industry Investment Management Co., Ltd., the executive director of HubeiCOL Digital Publishing Co., Ltd., the executive director of Guangzhou Siyuetian Information Technology Co., Ltd., the executive director of Beijing Tangyuan and its partners Network Technology Co., Ltd., the executive director of COL Group Co., Limited, the executive director of Chinese Online Anti-Piracy Union Limited, the director of ATA Online (Beijing) Education Technology Co., Ltd., the chairman of Crazy Maple Studio, the deputy president of Asia America Multi-technology Association, the vice-chairman of China Audio-video and Digital Publishing Association, and the vice president of China Editorial Association. Mr. Tong received his bachelor's degree from Tsinghua University and his IMBA degree from Tsinghua University.

*Amy Tung* is our Chief Financial Officer, having assumed such role on April 1, 2017. She also served as chairman on the supervisory board of ATA Online from July 2015 to August 2018. Ms. Tung has been with the Company since 2006, serving in roles previously include the assistant to the CEO and vice president/financial controller. Prior to her service with ACG, Ms. Tung has held various financial and accounting positions with Bayer Healthcare Limited in Hong Kong, BEA Systems (Hong Kong) Limited, Bureau Veritas Consumer Products Services (Hong Kong) Limited, Agilent Technologies Hong Kong Limited, and Compaq Computer Limited. Ms. Tung received her master's degree in financial engineering from Columbia University and her MBA and bachelor's degree in computer science from the Chinese University of Hong Kong. She is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

## **B. Compensation**

For the fiscal year ended December 31, 2020, we and our subsidiaries paid aggregate cash compensation of approximately RMB 7.2 million (\$1.1 million) to our directors and executive officers as a group. We do not pay or set aside any amounts for pension, retirement or other benefits for our officers and directors.

## **Share Incentives**

We adopted a share incentive plan, or the 2005 Plan, in April 2005, which was terminated in 2015. We adopted our 2008 Employee Share Incentive Plan, or the 2008 Plan, in January 2008. We amended and restated the 2008 Plan, or the Amended and Restated 2008 Plan, in December 2016, primarily to extend its term and expand the option pool thereunder to include the reserved but unissued common shares under the 2005 Plan. We amended and restated the Amended and Restated 2008 Plan, or the Second Amended and Restated 2008 Plan in October 2018, primarily to extend its term, expand the option pool thereunder, and change the number of common shares automatically added to the option pool on each calendar year during its term. Our share incentive plans are intended to promote our success and to increase shareholder value by providing additional means to attract, motivate, retain and reward selected directors, officers, employees and other eligible persons. An aggregate of 3,310,300 common shares were reserved for issuance under the 2005 Plan. Subject to any amendment of the Second Amended and Restated 2008 Plan by our directors, the maximum aggregate number of common shares that may be issued pursuant to all awards under the Second Amended and Restated 2008 Plan is 6,965,846 shares (which was increased from 6,399,377 shares under the Amended and Restated 2008 Plan), plus, unless the board of directors determines a lesser amount, an annual increase on January 1 of each calendar year beginning in 2019 equal to the lesser of (i) one percent (1%) of the total number of common shares issued and outstanding on December 31 of the immediately preceding calendar year, or (ii) such number of common shares as may be established by the board of directors. As of December 31, 2020, 8,047,386 shares were authorized for issuance under the Second Amended and Restated 2008 Plan.

We have issued share options and restricted shares under the 2005 Plan, the 2008 Plan, the Amended and Restated 2008 Plan and the Second Amended and Restated 2008 Plan to selected directors, officers, employees and individual consultants and advisors. The contractual term of these options is mostly for ten years.



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

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

Our board of directors may amend, alter, suspend, or terminate our share incentive plans at any time, provided, however, that our board of directors must first seek the approval of the participants of our share incentive plans if such amendment, alteration, suspension or termination would adversely affect the rights of participants under any option granted prior to that date. The 2005 Plan was terminated in 2015, and without further action by our board of directors, the Second Amended and Restated 2008 Plan will terminate in 2028.

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

#### Share options

Name	Number of Common Shares to be Issued Upon Exercise of Options	Exercise Price per Common Share	Date of Issuance	Vesting Start Date	Date of Expiration
Amy Tung	200,000	\$ 0.578	November 6, 2018	November 6, 2018	November 5, 2028
Jun Zhang*	1,698,790	\$ 1.2611	August 6, 2019	N/A	August 5, 2029

\*One fourth (1/4) of the total number of common shares of the Company subject to the option of Jun Zhang (the "First Tranche") shall vest on April 1, 2021, on the condition that specific performance target is achieved for fiscal year 2020. As the specific performance target is not achieved for fiscal year 2020, the vesting of the First Tranche of the option of Jun Zhang will be delayed to the following or subsequent anniversary of April 1, 2021 until the specific performance target is achieved. The vesting schedule and the targets of the remaining three-quarters (3/4) of the common shares of the Company subject to the option of Jun Zhang shall be further determined by the compensation committee upon the achievement of the aforementioned target for the First Tranche of the option of Jun Zhang.

#### Restricted Shares

Name	Restricted Shares	Date of Grant	Vesting Start Date
Xiaofeng Ma	200,000	May 30, 2011	June 1, 2011
	90,000	February 10, 2015	February 10, 2015
	133,000	January 17, 2017	January 17, 2017
	1,469,460	December 19, 2018	December 19, 2018
Andrew Yan	100,000	May 30, 2011	June 1, 2011
	133,000	January 17, 2017	January 17, 2017
	200,000	November 6, 2018	November 6, 2018
Hope Ni	60,000	February 16, 2012	February 17, 2012
	133,000	January 17, 2017	January 17, 2017
	200,000	November 6, 2018	November 6, 2018
Alec Tsui	60,000	February 16, 2012	February 17, 2012
	133,000	January 17, 2017	January 17, 2017
	200,000	November 6, 2018	November 6, 2018
	200,000	November 6, 2018	November 6, 2018
Zhilei Tong	200,000	November 6, 2018	November 6, 2018
Amy Tung	30,000	February 16, 2012	February 17, 2012
	10,000	June 13, 2013	June 13, 2013
	100,000	January 17, 2017	January 17, 2017
	100,000	December 19, 2018	December 19, 2018

## C. Board Practices

### Duties of Directors

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

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

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

### Terms of Directors

We have a board of six directors divided into class A, class B and class C directors. As of the date of this annual report, the class A directors are Xiaofeng Ma and Zhilei Tong, the class B directors are Andrew Yan and Jun Zhang, and the class C directors are Hope Ni and Alec Tsui. One third of our directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one third) shall retire from office every year at our annual general meeting of shareholders on a rotating basis. Our class B directors Andrew Yan and Jun Zhang were retired from office and were re-elected at our 2020 annual general meeting. Our class A director Zhilei Tong will retire from office and will be eligible for re-election at our 2021 annual general meeting. Our chief executive officer, which currently is Xiaofeng Ma, shall not, while holding office, be subject to retirement or be taken into account in determining the number of directors to retire in any year. Neither we nor our subsidiaries have any directors' service contracts providing for benefits upon termination of employment.

### Board Practices

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

#### *Audit Committee*

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

Our audit committee is responsible for, among other things:

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

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

#### ***Compensation Committee***

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

Our compensation committee is responsible for:

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

### ***Nominations Committee***

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

Our nominations committee is responsible for, among other things:

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

### **Corporate Governance**

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

### **Interested Transactions**

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

### **D. Employees**

We had 101, 768 and 580 employees as of December 31, 2018, 2019 and 2020 in China, respectively. As of December 31, 2020, we had 156 employees in teaching, 96 employees in teaching administration and affairs (among which are 5 permanent employees who are supplemented by professional art teachers focusing on research and curriculum development), 185 employees in sales and marketing, 21 in research and development and 122 in general and administrative functions.

We use our share incentive plans as additional means to further attract, motivate, retain and reward selected directors, officers, employees and third-party consultants and advisors. For more information, see Item 6.B. “Directors, Senior Management and Employees — Compensation — Share Incentives.” We believe these initiatives have contributed to our ability to attract and retain talent.

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

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

## E. Share Ownership

The following table sets forth information with respect to the beneficial ownership, within the meaning of Section 13(d)(3) of the Exchange Act, of our common shares as of April 6, 2021 by:

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

	Common shares beneficially owned	
	Number (1)	Percent (2)
<b>Directors and Executive Officers:</b>		
Xiaofeng Ma(3)	25,160,508	39.7 %
Andrew Yan	*	*
Hope Ni	*	*
Alec Tsui	*	*
Zhilei Tong	*	*
Amy Tung	*	*
Jun Zhang(4)	9,360,000	14.8 %
Directors and Executive Officers Combined	36,271,446	57.1 %
<b>Principal Shareholders:</b>		
Joingear Limited(5)	18,427,074	29.1 %
HSBC International Trustee Limited(6)	9,804,588	15.5 %
Able Knight Development Limited(3)	4,998,988	7.9 %
Alpha Advantage Global Limited(7)	4,717,100	7.4 %
Jiangong Zhao(7)	4,717,100	7.4 %
Arts Consulting Limited(8)	9,360,000	14.8 %
CL-TCC(9)	5,662,634	8.9 %
Pengjian Shi(9)	5,662,634	8.9 %
TCC Management Limited(9)	5,662,634	8.9 %

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

- (1) The number of common shares beneficially owned by each of the listed persons includes common shares that such person has the right to acquire within 60 days after April 6, 2021.
- (2) Percentage of beneficial ownership for each of the persons listed above is determined by dividing (i) the number of common shares beneficially owned by such person by (ii) the total number of common shares outstanding, plus the number of common shares such person has the right to acquire within 60 days after April 6, 2021. The total number of our common shares outstanding as of April 6, 2021 is 63,402,376.
- (3) Includes (i) 1,734,446 common shares held by Xiaofeng Ma, (ii) 4,998,988 common shares held by Able Knight Development Limited, which is a British Virgin Islands company wholly-owned by Precious Time Holdings Limited and ultimately wholly owned by HSBC International Trustee Limited as trustee of an irrevocable trust constituted under the laws of the Cayman Islands with Xiaofeng Ma as the settlor and certain family members of Xiaofeng Ma as the beneficiaries, and (iii) 18,427,074 common shares held by Joingear Limited, which is a British Virgin Islands company with 100% of its issued and outstanding share capital owned by Xiaofeng Ma. Xiaofeng Ma is the sole director of Able Knight Development Limited. The business address of Able Knight Development Limited is Portcullis Chambers, 4th Floor, Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, British Virgin Islands. Xiaofeng Ma and Zhilei Tong are directors of Joingear Limited. The business address of Joingear Limited is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.
- (4) Includes 9,360,000 common shares held by Arts Consulting Limited, or ArtsCL, which is a British Virgin Islands company. Jun Zhang is the sole director and holds 75% of the issued and outstanding share capital of ArtsCL. The business address of ArtsCL is CCS Trustees Limited, Mandar House, 3<sup>rd</sup> Floor, Johnson's Ghut, Tortola, British Virgin Islands. If Jun Zhang violates his non-compete obligation owned to the Company, the Company may require ArtsCL to either return 75% of the 9,360,000 common shares held by it, or pay to the Company an amount equal to the valuation of 75% of such common shares held by it if such common shares have been sold, calculated using the per share price of our common shares on August 6, 2019.

- (5) Includes 18,427,074 common shares held by Joingear Limited, based on Schedule 13D/A Amendment No. 8 filed jointly by Xiaofeng Ma, Able Knight Development Limited, Precious Time Holdings Limited, Ma Family Trust and Joingear Limited on May 21, 2020. Joingear Limited is a British Virgin Islands company. Xiaofeng Ma and Zhilei Tong are directors of Joingear Limited.
- (6) Based on a Schedule 13G Amendment No. 7 filed by HSBC International Trustee Limited on February 7, 2018. The registered address of HSBC International Trustee Limited is 21 Collyer Quay, #19-01 HSBC Building, Singapore 049320.
- (7) Based on a Schedule 13G Amendment No. 1 filed jointly by Jiangong Zhao, Dynamic Fame Limited and Alpha Advantage Global Limited on January 22, 2018. Includes 188,000 common shares held of record by Dynamic Fame Limited and 4,529,100 common shares held of record by Alpha Advantage Global Limited. Dynamic Fame Limited is a British Virgin Islands company and a wholly owned subsidiary of Alpha Advantage Global Limited. Alpha Advantage Global Limited is a British Virgin Islands company wholly owned by Jiangong Zhao. The business address of Alpha Advantage Global Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands and the business address of Dynamic Fame Limited is Office 1601, 16/F, 31 Queen's Road Central, Hong Kong.
- (8) Based on a Schedule 13D/A filed jointly by Jun Zhang and ArtsCL on May 21, 2020. ArtsCL is a British Virgin Islands company. Jun Zhang is the sole director of ArtsCL.
- (9) Based on a Schedule 13G filed jointly by CL-TCC, TCC Management Limited and Pengjian Shi on February 18, 2020. Includes 5,662,634 common shares held of record by CL-TCC. CL-TCC is a Cayman Islands company with 50% and 50% of its issued and outstanding share capital owned by CL Management Ltd. and TCC Management Limited, respectively. TCC Management Limited is a Cayman Islands company wholly owned by Pengjian Shi, who may be deemed to have the sole voting power and sole dispositive power with respect to the common shares held by CL-TCC. The business address of TCC Management Limited is c/o Solaris Corporate Services Ltd., P.O. Box 1990, 3rd Floor, FirstCaribbean House, George Town Grand Cayman KY1-1104, Cayman Islands and the business address of CL-TCC is Harbour Place, 2nd Floor, 103 South Church Street, P.O. Box 472, George Town, Grand Cayman KY1-1106, Cayman Islands.

None of our shareholders have different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. See Item 6.B. "Directors, Senior Management and Employees — Compensation — Share Incentives" for information on options granted to our current directors and executive officers and Item 6.D. "Employees" for a discussion of our use of share incentive plans to incentivize our employees. To our knowledge, as of April 6, 2021, 100 of our common shares were held by holders of record in the United States. However, 25,873,068 common shares were registered in the name of a nominee of Citibank, N.A., the depository of our ADSs. It is likely that a large number of beneficial owners of our ADSs reside in the United States.

#### **Historical Changes in Shareholdings of our Major Shareholders**

On August 6, 2019, we completed the acquisition of 100% of the equity interests in ACGIGL, which held 69.04% of the equity interests in Huanqiuyimeng, by issuing 9,360,000 ordinary shares of the Company (the "Consideration Shares") as consideration to ArtsCL, the sole shareholder of ACGIGL. Jun Zhang held 75% of the issued and outstanding share capital of ArtsCL.

On December 24, 2019, we completed a transaction (the "PIPE Transaction") in connection with private placement of 5,662,634 common shares to CL-TCC for an aggregate price of US\$10,022,862, or US\$1.77 per share. CL-TCC is a company focusing on investments in the cultural and education industry. We plan to use the proceeds from the PIPE Transaction to fund our day-to-day operations and M&A activities. In connection with the PIPE Transaction, we also entered into an Investor Rights Agreement dated December 15, 2019 (the "IRA") with CL-TCC. Under the IRA, without the prior written consent of the Company, CL-TCC shall not, directly or indirectly, (i) sell, transfer or assign the common shares purchased by CL-TCC within two years following the date of the IRA, (ii) transfer the common shares purchased by CL-TCC to competitors of the Company, or (iii) acquire additional securities of the Company that will result in CL-TCC and its controlled affiliates holding more than 30% of the Company's outstanding share capital on a fully-diluted basis. CL-TCC was also granted preemptive rights to ratably subscribe for new securities of the Company in any future private placement of the Company as long as it holds no less than 5% of the share capital of the Company on an as-converted and fully-diluted basis. Additionally, Mr. Xiaofeng Ma and his holding entities (together, the "Undertaking Shareholders") issued an Undertaking Letter dated December 15, 2019 (the "Undertaking") in connection with the PIPE Transaction, pursuant to which, the Undertaking Shareholders shall not, without the prior written consent of the Company, sell, directly or indirectly, any securities of the Company during the period commencing on the date of the Undertaking and ending on, and including, the earlier of (i) the second anniversary of the date of the Undertaking, or (ii) the date on which CL-TCC transfers, assigns or disposes of more than 50% of the common shares purchased by CL-TCC.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

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

### B. Related Party Transactions

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

PRC laws and regulations currently limit foreign ownership of companies that engage in certain businesses related to, among other things, international education businesses. Due to these restrictions, we operate our relevant businesses through contractual arrangements with our variable interest entity. For a description of these contractual arrangements, see Item 4.A. “Information on the Company — History and Development of the Company — Contractual Arrangements with ATA Intelligent Learning.”

#### Purchase of Online Education Platform Services from an Affiliate Company

The Company has subscribed services of online educational platform provided by an affiliate company, EEO Empower Education Online Co., Ltd. (“EEO”), to support its online delivery of credit hours and other relevant services from January to June 2020. Cost of revenues in the amount of RMB 115,968 was recognized for the services purchased during the period.

#### Muhua Shangce’s Loans and Guarantees

##### *Amounts Due to a Related Party*

The CEO, director and shareholder of the Group, Mr. Xiaofeng Ma has offered interest-free personal funding support of RMB 431,000 and RMB 200,000 to Muhua Shangce, the majority owned subsidiary of the Group, on March 5 and March 30, 2020 respectively, to support its operational cash needs during COVID-19, which became due in September 2020 and was extended for one year to September 2021. As of December 31, 2020, the outstanding balance was RMB 631,000.

##### *Joint Liability Guarantee provided by Mr. Xiaofeng Ma*

Muhua Shangce has borrowed RMB 3.0 million from a third-party company at an annual interest rate of 4.35% in April 2020, for which the Group’s CEO and Director, Mr. Xiaofeng Ma, has provided a joint liability guarantee.

##### *Amounts Due to a Company Controlled by a Related Party*

In November 2020, a partnership controlled by the Group’s CEO and Director, Mr. Xiaofeng Ma provided a ten-month interest-free loan of RMB 500,000 to Muhua Shangce. As of December 31, 2020, the outstanding balance was RMB 500,000.

#### Expenses paid to a Related Company on behalf of Huanqiuyimeng

From January 1, 2020 to May 14, 2020, before Shanghai Aixue Culture Communication Co., Ltd. (“Shanghai Aixue”) became a wholly owned subsidiary of the Company, Huanqiuyimeng prepaid RMB 672,254 to Shanghai Aixue, a company previously owned by president Mr. Jun Zhang and one of the employees, and Shanghai Aixue paid a total amount of RMB 483,902 of Huanqiuyimeng’s operating expenses on behalf of Huanqiuyimeng.

From the Acquisition Date to December 31, 2019, Huanqiuyimeng prepaid RMB 1,038,494 to Shanghai Aixue, and Shanghai Aixue paid a total amount of RMB 1,037,126 of Huanqiuyimeng’s operating expenses on behalf of Huanqiuyimeng. As of December 31, 2019, the outstanding balance was RMB 1,368 due from Shanghai Aixue, which is unsecured, interest free and repayable on demand.

### C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

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

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

#### Legal Proceedings

##### 1. Beijing litigation

In March 2020, Mr. Xiaofeng Ma, our chairman and chief executive officer, received copies of the civil complaints with respect to a lawsuit filed by our two shareholders Alpha Advantage Global Limited (“Alpha”) and Dynamic Fame Limited (“Dynamic”), respectively with the Beijing Fourth Intermediate People’s Court (the “Beijing Intermediate Court”) relating to the Company’s sale of the ATA Online Business (for details of the sale of the ATA Online Business, see “Item 4. Information on the Company—A. History and Development of the Company”). The Company was also listed as a defendant and ATA Online was listed as an interested third party in such lawsuits. Alpha was a holder of 4,529,100 common shares of the Company and Dynamic was a holder of 188,000 common shares of the Company at the time of the completion of the sale of ATA Online Business.

The plaintiffs claimed that the sale of the ATA Online Business was a related-party transaction or a self-dealing transaction, for which approval by unrelated shareholders is required and the board of the directors of the Company did not have the right to approve such transaction; the plaintiffs also claimed that the ATA Online Business was worth more than the consideration of US\$200.0 million paid by the buyer group, and thus the sale of ATA Online Business has caused losses to the plaintiffs as shareholders of the Company. The plaintiffs are requesting that the Beijing Intermediate Court rule that (i) all board resolutions of the Company regarding the sale of the ATA Online Business are invalid; (ii) Mr. Xiaofeng Ma shall compensate the loss incurred by Alpha and Dynamic from the Company’s sale of the ATA Online Business for RMB 95.0 million and RMB 5.0 million, respectively; and (iii) the Company and Mr. Xiaofeng Ma shall jointly bear the attorney’s fees of Alpha and Dynamic for RMB 1.5 million and RMB 0.5 million, respectively, and other litigation costs.

The Company filed an application for jurisdiction objection for each of the foregoing two cases, which was not supported by court order. As a result, these two cases will be heard by the Beijing Intermediate Court. While the Company does not believe the plaintiffs have any merit in their claims, the Company is actively preparing for the foregoing suits, and both cases have not yet been heard by the Beijing Intermediate Court as of the date of this annual report.

##### 2. Ningbo litigation (such case has been transferred to Beijing Intermediate Court)

In March 2020, Alpha and Dynamic jointly filed a lawsuit with the Ningbo City Intermediate People’s Court (the “Ningbo Intermediate Court”) against Mr. Xiaofeng Ma, certain entities controlled by management members of the ATA Online which were members of the buyer group, New Beauty Holdings Limited, the Company’s director Zhilei Tong, ChineseAll Digital Publishing Group Co., Ltd. and ATA Learning in connection with the Company’s sale of the ATA Online Business, and listed the Company and ATA Online as interested third parties. The plaintiffs are requesting that the Ningbo Intermediate Court rule that (i) all related party transactions between the defendants and the Company relating to the sale of ATA Online Business are invalid; (2) Mr. Xiaofeng Ma, the entities controlled by the management members of ATA Online and ChineseAll Digital Publishing Group Co., Ltd. shall return the equity interest of ATA Online and ATA Learning they acquired to ATA Learning and ATA BVI, a wholly owned subsidiary of the Company, as the case may be; and (3) all defendants and the Company shall jointly bear the attorney’s fees of the plaintiffs for RMB 15.0 million and other litigation costs.

The case was transferred by the Ningbo City Intermediate People’s Court to Beijing Intermediate Court for further proceeding. As of the date of this annual report, the case has not yet been heard.

All of the aforementioned lawsuits remain in their preliminary stages and, while we do not believe the allegations of the plaintiffs have any merit and intend to vigorously defend against these lawsuits, we are currently unable to estimate the possible outcome of such lawsuits. For risks and uncertainties relating to pending lawsuits against us, please see “Item 3. Key Information—D. Risk Factors—Risks Related to Our ADSs— We have been named as a defendant or third party in three lawsuits in connection with our sale of ATA Online, which could have a material adverse impact on our business, financial condition, results of operation, cash flows and reputation.”

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



## **Dividend Policy**

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

On August 8, 2018, we declared a special cash dividend of US\$3.00 per common share, or US\$6.00 per ADS in connection with the final closing of the sale of the ATA Online Business. The total amount of cash dividend distributed was approximately RMB 946.6 million, which was paid on August 24, 2018 out of the proceeds we received from the sale of the ATA Online Business to all shareholders of records as of the close of business on August 20, 2018.

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

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

Under China's EIT Law and its Implementation Rules, both of which became effective on January 1, 2008, dividends from our PRC subsidiaries to us may be subject to a 10% withholding tax if such dividends are derived from profits generated after January 1, 2008. If we are deemed to be a PRC resident enterprise, the withholding tax may be exempted, but we will be subject to a 25% tax on our worldwide income, and our non-PRC enterprise investors may be subject to PRC income tax withholding at a rate of 10%. See Item 3.D. "Key Information — Risk Factors — Risks Relating to Regulations of Our Business — Under the EIT Law, we may be classified as a 'resident enterprise' of China. Such classification will likely result in unfavorable tax consequences to us and U.S. holders of our ADSs or common shares," and Item 10.E. "Additional Information — Taxation — People's Republic of China Taxation."

## **B. Significant Changes**

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

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offering and Listing Details.**

#### **Price Range of Our ADSs**

Our ADSs are listed for trading on the Nasdaq Global Market under the symbol "AACG".

#### **B. Plan of Distribution**

Not applicable.

#### **C. Markets**

See Item 9.A. above.

#### **D. Selling Shareholders**

Not applicable.

#### **E. Dilution**

Not applicable.

#### **F. Expenses of the Issue**

Not applicable.

## ITEM 10. ADDITIONAL INFORMATION

### A. Share capital

Not applicable.

### B. Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our fourth amended and restated memorandum and articles of association contained under the heading “Description of Share Capital” in our registration statement on Form [F-1 \(File No. 333-148512\)](#) originally filed with the SEC on January 8, 2008, as amended. At our 2020 Annual General Meeting of Shareholders held on December 18, 2020, it was resolved as a special resolution that our third amended and restated memorandum and articles of association be amended and restated into fourth amended and restated memorandum and articles of association to permit electronic and hybrid shareholders’ meetings and make certain updates and editorial changes.

### C. Material Contracts

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

### D. Exchange Controls

No foreign exchange controls exist in the Cayman Islands. The discussion below addresses the exchange controls that exist in the PRC.

#### *Regulation of Foreign Exchange*

The PRC government imposes restrictions on the convertibility of the Renminbi and on the collection and use of foreign currency by 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 banks authorized by SAFE for foreign exchange registration. With such foreign exchange registration, a foreign-invested enterprise may open foreign exchange bank accounts at banks authorized to conduct foreign exchange business by SAFE and may buy, sell and remit foreign exchange through such banks, subject to documentation and approval requirements. Foreign-invested enterprises are required to open and maintain separate foreign exchange accounts for capital account transactions and current account transactions. In addition, there are restrictions on the amount of foreign currency that foreign-invested enterprises may retain in such accounts. See also “Item 4.B. Information on the Company — Business Overview — Regulation.”

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in PRC political and economic conditions and PRC foreign exchange policies. The People’s Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve policy goals.

#### *Dividend Distributions*

We have adopted a holding company structure, and our holding companies may rely on dividends and other distributions on equity paid by our current and future Chinese subsidiaries for their cash requirements, including the funds necessary to service any debt we may incur or financing we may need for operations not carried through our Chinese subsidiaries. Chinese legal restrictions permit payments of dividends by our Chinese subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with Chinese accounting standards and regulations. Our Chinese subsidiaries are also required under Chinese laws and regulations to allocate at least 10% of their after-tax profits determined in accordance with PRC GAAP to statutory reserves until such reserves reach 50% of the company’s registered capital. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or cash dividends. For the year ended December 31, 2020, our Chinese subsidiaries allocated RMB 27,363 (\$4,194) to the general reserve fund. Any limitations on the ability of our Chinese subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, pay dividends and otherwise fund and conduct our business.

## **E. Taxation**

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

### **Cayman Islands Taxation**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of ADSs or common shares. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands. The Cayman Islands is a party to a double tax treaty entered into with the United Kingdom in 2020 but is otherwise not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

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

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

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

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

In 2007 China passed a new Enterprise Income Tax Law, or the EIT Law, and its Implementing Rules, both of which became effective on January 1, 2008. The EIT Law created a new "resident enterprise" classification, which, if applied to us, would impose a 10% withholding tax on our non-PRC enterprise shareholders and, pursuant to Circular of the MOF and the SAT on Some Policy Issues regarding Personal Income Tax (Cai Shui Zi [1994] No. 020), the dividend and bonus incomes received by individual aliens from the foreign-invested enterprises are temporarily exempted from individual income tax and hence, the dividends we pay to our non-PRC individual shareholders may be qualified to enjoy the individual income tax exemption if certain conditions are met; otherwise, a potential 20% individual income tax may be applied on dividends we pay to them if such dividends are derived from profits generated after January 1, 2008 and with respect to gains derived by our non-PRC shareholders from disposition of our shares or ADSs, if such dividends or gains are determined to have been derived from sources within China. See Item 3.D. "Key Information — Risk Factors — Risks Relating to Regulations of Our Business — Under the EIT Law, we may be classified as a "resident enterprise" of China. Such classification will likely result in unfavorable tax consequences to us and U.S. holders of our ADSs or common shares."

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

### **United States Federal Income Taxation**

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

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;

- banks or certain financial institutions;
- insurance companies;
- tax-exempt organizations;
- partnerships or other entities treated as partnerships or other pass-through entities for U.S. federal income tax purposes or persons holding ADSs or common shares through any such entities;
- regulated investments companies or real estate investment trusts;
- persons that hold ADSs or common shares as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- persons whose functional currency for tax purposes is not the U.S. dollar;
- persons liable for alternative minimum tax; or
- persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares (including ADSs and common shares) entitled to vote.

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

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

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

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

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

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

## **Dividends on ADSs or Common Shares**

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

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

## **Sales and Other Dispositions of ADSs or Common Shares**

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

## **Passive Foreign Investment Company**

We believe that we were not a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2020. However, PFIC status is tested each year and depends on the composition of our assets and income and the value of our assets from time to time. Since we currently hold, and expect to continue to hold, a substantial amount of cash and other passive assets and, since the value of our assets is to be determined in large part by reference to the market prices of our ADSs and common shares, which is likely to fluctuate over time, there can be no assurance that we will not be a PFIC for any taxable year.

We note that the portion of our assets that consisted of cash and other passive assets was more significant during the period between our sale of ATA Online Business in 2018, and our acquisition of the 100% equity interest in Huanqiyimeng in 2019, than before or after this period, although we believe this did not result in our becoming a PFIC for either the taxable year ended December 31, 2018 or the taxable year ended December 31, 2019. There is a change of business exception to PFIC status that, in general terms, applies if a foreign corporation otherwise would be a PFIC for a year because it has disposed of one or more active businesses, so long as the foreign corporation is not a PFIC during the two succeeding years, and that might apply to us if we were found to have been a PFIC for either (but not both) of the taxable years ended December 31, 2018 and December 31, 2019. There is limited guidance as to the application of this exception, including regulations that were promulgated in July 2019 and were finalized in January 2021, and it is unclear whether this exception would apply to us, if it were determined, absent this exception, that we were a PFIC for either the taxable year ended December 31, 2018 or the taxable year ended December 31, 2019.

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

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

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

To compute the tax on “excess distributions” or any gain, (a) the “excess distribution” or the gain would be allocated ratably to each day in your holding period, (b) the amount allocated to the current year and any tax year prior to the first taxable year in which we were a PFIC would be taxed as ordinary income in the current year, (c) the amount allocated to other taxable years would be taxable at the highest applicable marginal rate in effect for that year, and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year. In addition, if we were a PFIC, no distribution that you might receive from us would qualify for taxation at the preferential rate discussed in the Item 10.E. “Additional Information — Taxation — Dividends on ADSs or Common Shares” section above.

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

Each U.S. Holder of a PFIC is required to file an annual report containing such information as the U.S. Treasury may require and may be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or common shares and any gain realized on the disposition of the ADSs or common shares. You should consult with your own tax advisor regarding reporting requirements with regard to your ADSs and common shares.

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

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

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

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

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts.**

Not applicable.

**H. Documents on Display**

We previously filed with the SEC our registration statement on Form F-1 as amended.

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

We are subject to the informational requirements of the Exchange Act and file reports and other information with the SEC.

Copies of these material may be obtained from the SEC's Commission's Internet site at <http://www.sec.gov>.

**I. Subsidiaries Information**

Not applicable.

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

### Quantitative and Qualitative Disclosures about Market Risk

#### *Interest Rate Risk*

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

#### *Foreign Currency Risk*

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

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in PRC political and economic conditions and PRC foreign exchange policies. For instance, in August 2015, the People's Bank of China, or PBOC, changed the way it calculates the mid-point price of Renminbi against U.S. dollar, requiring the market-makers who submit for the PBOC's reference rates to consider the previous day's closing spot rate, foreign-exchange demand and supply as well as changes in major currency rates. This change, and other changes such as widening the trading band that may be implemented, may increase volatility in the value of the Renminbi against foreign currencies. The value of Renminbi against the U.S. dollar depreciated approximately 5.0% in 2018, depreciated approximately 1.6% in 2019 and appreciated approximately 6.8% in 2020. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in greater fluctuations of the Renminbi against the U.S. dollar.

The functional currency of our offshore entities and subsidiaries, including ATA Creativity Global, ATA BVI, Xing Wei and ACGIGL, is the U.S. dollar, which results in our exposure to foreign currency exchange risk. Primarily as a result of the depreciation of the Renminbi against the U.S. dollar, the translation of the net assets of our offshore entities and subsidiaries, including ATA Creativity Global, ATA BVI, Xing Wei and ACGIGL to Renminbi during consolidation resulted in translation gains of RMB 53,445 (\$8,191) which we recognized as a component of other comprehensive income for the fiscal year ended December 31, 2020. If the Renminbi against U.S. dollar as of December 31, 2020 had appreciated by 10% from 6.5249 to 5.9317 as of December 31, 2020, the other comprehensive income would have decreased by RMB 1,128,162 (\$172,898) to be a loss. Further, we recognized a net foreign currency exchange loss of RMB 1,050,043 (\$160,926) as a result of the re-measurement of our foreign currency denominated monetary assets and liabilities. If the Renminbi had appreciated against the U.S. dollar as of December 31, 2020 by 10% from 6.5249 to 5.9317 as of December 31, 2020, our foreign currency exchange loss would have increased by RMB 1,028,132 (\$157,568).

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.

#### *Inflation*

China has generally not experienced significant inflation in recent years. According to China's National Bureau of Statistics, the changes in China's consumer price index was 2.1%, 2.9 % and 2.5% in the years 2018, 2019 and 2020, respectively. In February 2021, the year-over-year change in China's consumer price index was negative 0.2%. Neither inflation nor deflation has had a material impact on our results of operations to date, and we do not currently expect the recent inflation in China to have a significant effect on our operations.

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

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.



### C. Other Securities

Not applicable.

### D. American Depositary Shares

#### *Fees Payable by ADS Holders*

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

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

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

Service	Fees
• Issuance of ADSs	US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) issued
• Cancellation of ADSs	US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) cancelled
• Distribution of cash dividends or other cash distributions	US\$2.00 (or less) per 100 ADSs (or portion of 100 ADSs) held
• Distribution of ADSs pursuant to stock dividends, free stock distributions or exercise of rights	US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) held
• Distribution of securities other than ADSs or rights to purchase additional ADSs	US\$5.00 (or less) per 100 per share (or share equivalent) held
• Depositary services	US\$2.00 (or less) per 100 ADSs (or portion of 100 ADSs) held on the applicable record date(s) established by the depositary

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

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

- the fees and expenses incurred by the depositary, the custodian, or any nominee in connection with the servicing or delivery of deposited securities. The fees and charges an ADS holder may be required to pay may vary over time and may be changed by us and by the depositary bank. ADS holders will receive prior notice of such changes.

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

We had received from our depositary a reimbursement of \$0.1 million during the fiscal year ended December 31, 2020.

## **PART II.**

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

None.

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

The rights of securities holders have not been materially modified.

### **ITEM 15. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this annual report, an evaluation has been carried out under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our chief executive officer and chief financial officer have concluded that, due to the material weakness described below, as of December 31, 2020, our disclosure controls and procedures are ineffective in ensuring that material information required to be disclosed in this annual report is recorded, processed, summarized and reported to them for assessment, and required disclosure is made within the time period specified in the rules and forms of the Securities and Exchange Commission.

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

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

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

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the Securities and Exchange Commission, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020 using criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was ineffective as of December 31, 2020 because of the material weakness described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. We fail to properly address complex accounting issues and related disclosures in accordance with U.S. GAAP due to our lack of sufficient financial reporting and accounting personnel with appropriate knowledge of U.S. GAAP to operate relevant key controls over the financial reporting process.

We have implemented and plan to implement certain measures to address the material weakness, including: (i) utilizing and hiring more qualified resources including external consultants, equipped with relevant U.S. GAAP and SEC reporting experience and qualifications in dealing with complex accounting issues to strengthen the financial reporting function, (ii) conducting regular and continuous training programs for our accounting and financial reporting personnel, and (iii) establishing effective oversight for non-recurring and complex transactions to ensure consolidated financial statements and related disclosures are in compliance with U.S. GAAP and SEC reporting requirements. However, we cannot assure you that we will remediate our material weakness in a timely manner, or at all. See "Item 3. Key Information—Risk Factors—Risks Relating to Our Business—We may be unable to maintain an effective system of internal control over financial reporting, and as a result we may be unable to accurately report our financial results or prevent fraud."

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

## Changes in Internal Control over Financial Reporting

Other than as described above, there were no significant changes in our internal control over financial reporting that occurred during the year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 16. RESERVED

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our audit committee consists of Hope Ni and Alec Tsui. Hope Ni is the chairman of our audit committee. Our board of directors has determined that Hope Ni and Alec Tsui are "independent directors" within the meaning of Nasdaq Stock Market Rule 5605(a)(2) and meet the criteria for independence set forth in Rule 10A-3(b) of the Exchange Act. Hope Ni meets the criteria of an audit committee financial expert as set forth under the applicable rules of the SEC.

### ITEM 16B. CODE OF ETHICS

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

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

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

	For the fiscal year ended		
	December 31, 2019	December 31, 2020	
	RMB	RMB	US\$
Audit fees <sup>(1)</sup>	3,126,438	2,989,518	458,164
Audit-related fees <sup>(2)</sup>	1,121,069	1,601,528	245,445

(1) "Audit fees" means the aggregate fees billed or payable for professional services rendered by our principal accountant for the audits of our consolidated financial statements of ATA Creativity Global and its subsidiaries.

(2) "Audit-related fees" means the aggregate fees billed or payable for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit fees." Services comprising the fees disclosed under the category of "Audit-related fees" in the fiscal years ended December 31, 2019 and 2020 were limited procedures performed in relation to our quarterly financial information.

The audit committee or our board of directors is to pre-approve all auditing services and permitted non-audit services to be performed for us by our independent registered public accounting firm, including the fees and terms thereof.

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

None.

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

In May 14, 2020, our board of directors announced a new share repurchase program pursuant to which we would repurchase up to US\$1.0 million worth of our ADSs on the open market and through privately negotiated transactions. The 2020 Share Repurchase Program was terminated on December 31, 2020 and as of such date we had repurchased 450,337 of our outstanding ADSs at an average stock price of US\$1.2631 pursuant to the program.

The table below is a summary of the shares repurchased by us during the 2020 fiscal year. All ADSs were repurchased in the open market pursuant to the applicable share repurchase programs.

Period	(a) Total Number of ADSs Purchased	(b) Average Price Paid per ADS (US\$)	(c) Total Number of ADSs Purchased as Part of Publicly Announced Plan or Programs	(d) Maximum Approximate Dollar Value of ADSs that May Yet Be Purchased Under the Plan or Programs (US\$)
May 2020	20,480	0.8544	20,480	982,501
June 2020	201,981	1.1515	201,981	749,922
July 2020	227,876	1.3987	227,876	431,194

Other than shown in the table above, there were no other repurchases during the fiscal year ended December 31, 2020.

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

Not applicable.

#### ITEM 16G. CORPORATE GOVERNANCE

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

- Nasdaq Stock Market Rule 5605(b)(1) requires a Nasdaq-listed company to have a board of directors composed of at least a majority of independent directors. In this regard we have elected to adopt the practices of our home country, the Cayman Islands, which does not require us to have a majority of the board of directors composed of independent directors at this time.
- Nasdaq Stock Market Rule 5605(e)(1) requires a Nasdaq-listed company to have a nominations committee composed solely of independent directors to select or recommend for selection director nominees. In this regard we have elected to adopt the practices of our home country, the Cayman Islands, which does not require that any of the members of a company's nominations committee be independent directors.
- Nasdaq Stock Market Rule 5635(a) requires a Nasdaq-listed company to obtain shareholder approval for issuance of securities in connection with acquisitions under certain circumstances. As a foreign private issuer, however, we may adopt the practices of our home country, the Cayman Island, which do not require shareholder approval for issuance of securities in connection with acquisitions.
- Nasdaq Stock Market Rule 5635(c) requires a Nasdaq-listed company to obtain shareholder approval for the establishment of or material amendments to equity compensation plans. As a foreign private issuer, however, we may adopt the practices of our home country, the Cayman Island, which do not require shareholder approval for establishment or material amendments to equity compensation plans. None of the 2005 Plan, the 2008 Plan, the Amended and Restated 2008 Plan and the Second Amended and Restated 2008 Plan requires shareholder approval for material amendments to the plan or awards granted under the plan, including without limitation increasing the number of share awards that may be issued under the plan or the repricing of outstanding options.
- Nasdaq Stock Market Rule 5635(d) requires a Nasdaq-listed company to obtain shareholder approval for sale, issuance or potential issuance of securities in private placements under certain circumstances. As a foreign private issuer, however, we may adopt the practices of our home country, the Cayman Island, which do not require shareholder approval for sale, issuance or potential issuance of securities in private placements.

#### ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

**PART III.**

**ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

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

**ITEM 19. EXHIBITS**

## Index to Exhibits

Exhibit Number	Description
1.1	<a href="#"><u>Fourth Amended and Restated Memorandum and Articles of Association of the Registrant (1)</u></a>
2.1	<a href="#"><u>Form of Common Share Certificate (2)</u></a>
2.2	<a href="#"><u>Form of Deposit Agreement between the Registrant and Citibank, N.A., as depositary (3)</u></a>
2.3	<a href="#"><u>Form of American depositary receipt evidencing American depositary shares (4)</u></a>
2.4*	<a href="#"><u>Description of Securities</u></a>
4.1	<a href="#"><u>2005 Share Incentive Plan of ATA Testing Authority (Holdings) Limited (5)</u></a>
4.2	<a href="#"><u>2008 Employee Share Incentive Plan of the Registrant and form of ISO Option Agreement and NOSO Option Agreement (6)</u></a>
4.3	<a href="#"><u>2008 Employee Share Incentive Plan of the Registrant (amended and restated as of December 30, 2016) (7)</u></a>
4.4	<a href="#"><u>2008 Employee Share Incentive Plan of the Registrant (amended and restated as of October 26, 2018) (8)</u></a>
4.5	<a href="#"><u>Form of Indemnification Agreement between the Registrant and its directors (9)</u></a>
4.6	<a href="#"><u>Framework Agreement on Restructuring, dated May 20, 2015 (10)</u></a>
4.7	<a href="#"><u>Share Purchase Agreement among the Registrant, ATA Testing Authority (Holdings) Limited, Xing Wei Institute (Hong Kong) Limited, ATA Learning (Beijing) Inc., Delta Horizon Limited, Alpha Metric Horizon Limited, New Beauty Holdings Limited, Xiaofeng Ma and other parties listed therein, dated February 6, 2018 (11)</u></a>
4.8	<a href="#"><u>Loan Agreement between ATA Testing Authority (Beijing) Limited and Xiaofeng Ma, dated March 15, 2018 (12)</u></a>
4.9*	<a href="#"><u>Equity Transfer Agreement between Haichang Xiong and Jun Zhang, dated August 12, 2020</u></a>
4.10	<a href="#"><u>Loan Agreement between ATA Testing Authority (Beijing) Limited and Haichang Xiong, dated March 15, 2018 (13)</u></a>
4.11*	<a href="#"><u>Loan Agreement between ATA Education Technology (Beijing) Limited and Jun Zhang, dated August 12, 2020</u></a>
4.12	<a href="#"><u>Call Option and Cooperation Agreement among ATA Testing Authority (Beijing) Limited, Xiaofeng Ma, Haichang Xiong and ATA Intelligent Learning (Beijing) Technology Limited, dated March 15, 2018 (14)</u></a>
4.13*	<a href="#"><u>Call Option and Cooperation Agreement among ATA Education Technology (Beijing) Limited, Xiaofeng Ma, Jun Zhang and ATA Intelligent Learning (Beijing) Technology Limited, dated August 12, 2020</u></a>
4.14	<a href="#"><u>Exclusive Technical Consulting and Services Agreement between ATA Intelligent Learning (Beijing) Technology Limited and ATA Testing Authority (Beijing) Limited, dated March 15, 2018 (15)</u></a>
4.15	<a href="#"><u>Equity Interest Pledge Agreement between ATA Testing Authority (Beijing) Limited and Xiaofeng Ma, dated March 15, 2018 (16)</u></a>
4.16	<a href="#"><u>Equity Interest Pledge Agreement between ATA Testing Authority (Beijing) Limited and Haichang Xiong, dated March 15, 2018 (17)</u></a>
4.17*	<a href="#"><u>Equity Interest Pledge Agreement between ATA Education Technology (Beijing) Limited and Jun Zhang, dated August 12, 2020</u></a>
4.18	<a href="#"><u>Power of Attorney by Xiaofeng Ma in favor of ATA Testing Authority (Beijing) Limited, dated March 15, 2018 (18)</u></a>

4.19	<a href="#">Power of Attorney by Haichang Xiong in favor of ATA Testing Authority (Beijing) Limited, dated March 15, 2018 (19)</a>
4.20*	<a href="#">Power of Attorney by Jun Zhang in favor of ATA Education Technology (Beijing) Limited, dated August 12, 2020</a>
4.21	<a href="#">Supplementary Agreement to ATA Intelligent Learning (Beijing) Technology Limited VIE Agreements among ATA Education Technology (Beijing) Limited, ATA Intelligent Learning (Beijing) Technology Limited, Xiaofeng Ma and Haichang Xiong, dated March 19, 2019 (20)</a>
4.22	<a href="#">Supplementary Agreement II to ATA Intelligent Learning (Beijing) Technology Limited VIE Agreements among ATA Education Technology (Beijing) Limited, ATA Intelligent Learning (Beijing) Technology Limited, Xiaofeng Ma and Haichang Xiong, dated April 20, 2019 (21)</a>
4.23	<a href="#">Deed of Assignment among Ningbo Meishan Bonded Port Area Maikaiwen Equity Investment Management Partnership (LP), Ningbo Meishan Bonded Port Area Zhenming Equity Investment Management Partnership (LP), Ningbo Meishan Bonded Port Area Xinyi Equity Investment Management Partnership (LP), Ningbo Meishan Bonded Port Area Oixin Equity Investment Management Partnership (LP), ZHUHAI LIHONGHUAYING EQUITY INVESTMENT PARTNERSHIP (LP), New Beauty Holdings Limited, Xiaofeng Ma, the Registrant, ATA Testing Authority (Holdings) Limited and ATA Learning (Beijing) Inc., dated June 27, 2018 (22)</a>
4.24	<a href="#">Equity Transfer Agreement among the Registrant, Arts Consulting Limited, ACG International Group Limited, Beijing Huanquiyimeng Education Consultation Corp., Jun Zhang, and Rui Deng, dated June 28, 2019 (23)</a>
4.25	<a href="#">Consent Letter by Arts Consulting Limited, Jun Zhang and Rui Deng in favor of the Registrant, dated August 6, 2019 (24)</a>
4.26	<a href="#">Letter by the Registrant in favor of Arts Consulting Limited, Jun Zhang and Rui Deng dated December 30, 2019 (25)</a>
4.27	<a href="#">Subscription Agreement between the Registrant and CL-TCC, dated December 15, 2019 (26)</a>
4.28	<a href="#">Investor Rights Agreement between the Registrant and CL-TCC, dated December 15, 2019 (27)</a>
8.1*	<a href="#">List of Subsidiaries</a>
11.1	<a href="#">Code of Conduct (28)</a>
12.1*	<a href="#">CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
12.2*	<a href="#">CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
13.1**	<a href="#">CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2**	<a href="#">CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
15.1*	<a href="#">Consent of KPMG Huazhen LLP</a>
15.2*	<a href="#">Consent of Jincheng Tongda &amp; Neal Law Firm</a>
15.3*	<a href="#">Opinion of Jincheng Tongda &amp; Neal Law Firm</a>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document



- (1) Incorporated by reference to Exhibit 99.2 to the Registrant's report on Form 6-K (File No. 001-33910) filed with the SEC on December 18, 2020.
- (2) Incorporated by reference to Exhibit 4.1 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.
- (3) Incorporated by reference to the Exhibit 99.(A) to the Registration Statement on Form F-6 (File No. 333-148641) filed with the SEC on January 14, 2008.
- (4) Incorporated by reference to the Prospectus filed with the SEC on October 1, 2019 supplement to the Registration Statement on Form F-6 (File No. 333-148641) filed with the SEC on January 14, 2008.
- (5) Incorporated by reference to Exhibit 10.1 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.
- (6) Incorporated by reference to Exhibit 10.2 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.
- (7) Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (File No. 333-215674) filed with the Securities and Exchange Commission on January 24, 2017.
- (8) Incorporated by reference to Exhibit 4.4 to the Registrant's annual report on Form 20-F (File No.001-33910), filed with the SEC on April 18, 2019.
- (9) Incorporated by reference to Exhibit 10.3 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.
- (10) Incorporated by reference to Exhibit 4.16 to the Registrant's annual report on Form 20-F (File No. 001-33910), filed with the SEC on June 24, 2015.
- (11) Incorporated by reference to Exhibit 10.1 to the Registrant's report on Form 6-K (File No. 001-33910) filed with the SEC on February 6, 2018.
- (12) Incorporated by reference to Exhibit 4.18 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (13) Incorporated by reference to Exhibit 4.19 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (14) Incorporated by reference to Exhibit 4.20 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (15) Incorporated by reference to Exhibit 4.21 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (16) Incorporated by reference to Exhibit 4.22 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (17) Incorporated by reference to Exhibit 4.23 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (18) Incorporated by reference to Exhibit 4.24 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.
- (19) Incorporated by reference to Exhibit 4.25 to the Registrant's transition report on Form 20-F (File No. 001-33910) filed with the SEC on April 12, 2018.

- (20) Incorporated by reference to Exhibit 4.16 to the Registrant's annual report on Form 20-F (File No.001-33910), filed with the SEC on April 18, 2019.
- (21) Incorporated by reference to Exhibit 4.17 to the Registrant's annual report on Form 20-F (File No.001-33910), filed with the SEC on April 28, 2020.
- (22) Incorporated by reference to Exhibit 10.1 to the Registrant's report on Form 6-K (File No. 001-33910) filed with the SEC on June 27, 2018.
- (23) Incorporated by reference to Exhibit 99.2 to the Registrant's Report on Form 6-K (File No. 001-33910) filed with the SEC on June 28, 2019.
- (24) Incorporated by reference to Exhibit 99.3 to Jun Zhang's Report on Schedule 13-D (File No. 001-83689) filed with the SEC on August 15, 2019.
- (25) Incorporated by reference to Exhibit 4.21 to the Registrant's annual report on Form 20-F (File No.001-33910), filed with the SEC on April 28, 2020.
- (26) Incorporated by reference to Exhibit 99.2 to the Registrant's Report on Form 6-K (File No. 001-33910) filed with the SEC on December 18, 2019.
- (27) Incorporated by reference to Exhibit 99.3 to the Registrant's Report on Form 6-K (File No. 001-33910) filed with the SEC on December 18, 2019.
- (28) Incorporated by reference to Exhibit 99.1 to the Registrant's registration statement on Form F-1 (File No. 333-148512) filed with the SEC on January 08, 2008.

\* Filed with this annual report on Form 20-F.

\*\* Furnished with this annual report on Form 20-F.

**SIGNATURE**

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

*ATA Creativity Global*

/s/ Amy Tung

Name: Amy Tung

Title: Chief Financial Officer

Date: April 13, 2021

ATA Creativity Global  
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## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
ATA Creativity Global:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of ATA Creativity Global and subsidiaries (the Company) as of December 31, 2019 and 2020, the related consolidated statements of comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

### *Change in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases in 2019 due to the adoption of ASU No. 2016-02, *Leases* (Topic 842).

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### *Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### *Valuation of goodwill in the overseas art study services reporting unit*

As discussed in Note 9 to the consolidated financial statements, the Company has RMB 176,046,647 of goodwill in the overseas art study services reporting unit as of December 31, 2020. The Company performs goodwill impairment testing on an annual basis and whenever events or changes in circumstances indicate that the carrying value of a reporting unit likely exceeds its fair value. This involves estimating the fair value of the reporting units using discounted cash flow models.

We identified the valuation of goodwill in the overseas art study services reporting unit as a critical audit matter. The forecasted revenue growth rates, forecasted operating margins and the discount rate used to estimate the fair value of the reporting unit were challenging to test as they represented subjective determinations of future market and economic conditions that were sensitive to variation. Additionally, the audit efforts associated with these estimates required specialized skills and knowledge.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design of certain internal controls related to the Company's process to assess the valuation of goodwill in the overseas art study services reporting unit. This included controls related to the determination of forecasted revenue growth rates, forecasted operating margins and discount rate used to estimate the fair value of the overseas art study services reporting unit. We assessed the Company's ability to accurately forecast revenue growth rates and operating margins by comparing the reporting unit's historical forecast on revenue growth rates and operating margins to actual results. We compared the reporting unit's forecasted revenue growth rates and operating margins to historical results of the Company and forecasted revenue growth rates and operating margins of comparable companies using publicly available industry data. We performed sensitivity analysis over the forecasted revenue growth rates, forecasted operating margins and the discount rate to assess their impact on the Company's impairment assessment. In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the discount rate by comparing it against discount rate that was independently developed using publicly available industry data and comparable companies information.

/s/ KPMG Huazhen LLP

We have served as the Company's auditor since 2015.

Beijing, China  
April 13, 2021

**ATA CREATIVITY GLOBAL**  
Consolidated Balance Sheets

	Note	December 31, 2019 RMB	December 31, 2020 RMB	December 31, 2020 USD
<b>ASSETS</b>				
<i>Current assets:</i>				
Cash and cash equivalents		154,197,758	112,723,433	17,275,622
Accounts receivable, net		214,591	2,245,194	344,091
Subscription receivable	(18)	8,530,931	—	—
Prepaid expenses and other current assets	(4)	16,490,369	5,970,973	915,092
Loan receivable, net	(5)	4,126,502	—	—
<b>Total current assets</b>		<b>183,560,151</b>	<b>120,939,600</b>	<b>18,534,805</b>
Long-term investments	(6)	45,726,391	44,000,000	6,743,295
Property and equipment, net	(8)	42,070,794	38,119,216	5,842,025
Intangible assets, net	(9)	135,599,770	110,586,111	16,948,063
Goodwill	(9)	200,478,795	194,754,963	29,847,504
Other non-current assets		16,402,750	22,950,264	3,517,282
Right-of-use assets	(10)	40,786,291	41,779,086	6,402,925
Deferred income tax assets	(14)	11,464,891	2,491,792	381,884
<b>Total assets</b>		<b>676,089,833</b>	<b>575,621,032</b>	<b>88,217,783</b>
<b>LIABILITIES, MEZZANINE EQUITY AND SHAREHOLDERS' EQUITY</b>				
<i>Current liabilities:</i>				
Accrued expenses and other payables (including accrued expenses and other payables of VIE without recourse to the Company of RMB nil and 71,562 as of December 31, 2019 and 2020, respectively)	(12)	47,747,054	47,020,182	7,206,160
Short-term loans	(11)	4,991,000	6,801,000	1,042,299
Payable for business acquisition (including payable for business acquisition of VIE without recourse to the Company of 19,642,082 and RMB 4,642,082 as of December 31, 2019 and 2020, respectively)	(3)	19,642,082	4,642,082	711,430
Lease liabilities-current	(10)	20,556,017	16,972,187	2,601,101
Deferred revenues	(13)	171,880,131	199,448,112	30,566,760
<b>Total current liabilities</b>		<b>264,816,284</b>	<b>274,883,563</b>	<b>42,127,750</b>
Lease liabilities-non-current	(10)	12,500,120	24,005,765	3,679,044
Deferred income tax liabilities	(14)	48,241,809	28,985,472	4,442,218
<b>Total liabilities</b>		<b>325,558,213</b>	<b>327,874,800</b>	<b>50,249,012</b>
<i>Mezzanine equity-redeemable non-controlling interests</i>	(15)	<b>44,896,428</b>	<b>48,498,368</b>	<b>7,432,700</b>
<i>Shareholders' equity:</i>				
Common shares:				
Par value USD 0.01, authorized: 500,000,000 shares				
Issued: 64,044,572 and 63,889,448 shares as of December 31, 2019 and 2020, respectively				
Outstanding: 62,357,078 and 62,701,002 shares as of December 31, 2019 and 2020		4,692,312	4,716,675	722,862
Treasury shares—585,358 common shares as of December 31, 2019 and 2020, at cost		(27,737,073)	(11,625,924)	(1,781,751)
Additional paid-in capital		560,814,066	541,272,503	82,953,640
Accumulated other comprehensive loss		(37,478,167)	(37,424,722)	(5,735,590)
Accumulated deficits		(200,151,065)	(298,533,669)	(45,752,286)
<b>Total shareholders' equity attributable to ATA Creativity Global</b>		<b>300,140,073</b>	<b>198,404,863</b>	<b>30,406,875</b>
Non-redeemable non-controlling interests		5,495,119	843,001	129,196
<b>Total shareholders' equity</b>		<b>305,635,192</b>	<b>199,247,864</b>	<b>30,536,071</b>
Commitments and contingencies	(22)			
<b>Total liabilities, mezzanine equity and shareholders' equity</b>		<b>676,089,833</b>	<b>575,621,032</b>	<b>88,217,783</b>

See accompanying notes to consolidated financial statements.

**ATA CREATIVITY GLOBAL**  
Consolidated Statements of Comprehensive Income (Loss)

	Note	Year Ended December 31,			
		2018	2019	2020	2020
		RMB	RMB	RMB	USD
Net revenues	(13)	1,338,592	97,770,167	162,167,547	24,853,264
Cost of revenues		4,251,451	61,914,502	98,521,027	15,099,008
<b>Gross profit (loss)</b>		<b>(2,912,859)</b>	<b>35,855,665</b>	<b>63,646,520</b>	<b>9,754,256</b>
<b>Operating expenses:</b>					
Research and development		19,594,484	11,817,255	8,832,488	1,353,638
Sales and marketing		5,570,169	34,112,212	53,500,051	8,199,242
General and administrative		43,507,856	81,923,516	100,097,849	15,340,667
Impairment loss of intangible assets and other non-current assets	(9)	—	8,932,439	3,120,425	478,226
Provision for loan receivable and other receivables	(5)	—	17,430,825	5,904,305	904,874
<b>Total operating expenses</b>		<b>68,672,509</b>	<b>154,216,247</b>	<b>171,455,118</b>	<b>26,276,647</b>
Other operating income, net		3,793,418	588,147	330,224	50,609
<b>Loss from continuing operations</b>		<b>(67,791,950)</b>	<b>(117,772,435)</b>	<b>(107,478,374)</b>	<b>(16,471,782)</b>
<b>Other income (loss):</b>					
Loss on disposal of subsidiaries and others		—	(7,850)	(1,767,800)	(270,927)
Impairment loss of long-term investments	(6)	(6,380,802)	(26,814,507)	(1,726,391)	(264,581)
Change in fair value of long-term investments	(6)	2,750,000	—	—	—
Interest income, net of interest expenses		2,409,090	3,281,701	1,171,837	179,592
Foreign currency exchange gains (losses), net		960,188	51,476	(1,052,856)	(161,357)
<b>Total other loss, net</b>		<b>(261,524)</b>	<b>(23,489,180)</b>	<b>(3,375,210)</b>	<b>(517,273)</b>
<b>Loss from continuing operations before income taxes</b>		<b>(68,053,474)</b>	<b>(141,261,615)</b>	<b>(110,853,584)</b>	<b>(16,989,055)</b>
Income tax benefit	(14)	—	(7,149,119)	(10,268,836)	(1,573,768)
<b>Loss from continuing operations, net of income taxes</b>		<b>(68,053,474)</b>	<b>(134,112,496)</b>	<b>(100,584,748)</b>	<b>(15,415,287)</b>
<b>Discontinued operations:</b>					
Loss from operations of discontinued operations, net of income taxes	(25)	(18,950,969)	—	—	—
Gain from disposal of discontinued operations, net of income taxes		937,605,948	4,894,197	—	—
<b>Income from discontinued operations, net of income taxes</b>		<b>918,654,979</b>	<b>4,894,197</b>	<b>—</b>	<b>—</b>
<b>Net income (loss)</b>		<b>850,601,505</b>	<b>(129,218,299)</b>	<b>(100,584,748)</b>	<b>(15,415,287)</b>
Net loss attributable to redeemable non-controlling interests from continuing operations		(3,181,199)	(2,820,682)	(2,582,632)	(395,806)
Net loss attributable to non-redeemable non-controlling interests from continuing operations		(1,132,602)	(4,143,628)	(5,804,084)	(889,515)
Net loss attributable to non-redeemable non-controlling interests from discontinued operations		(10,608)	—	—	—
<b>Net income (loss) attributable to ATA Creativity Global</b>		<b>854,925,914</b>	<b>(122,253,989)</b>	<b>(92,198,032)</b>	<b>(14,129,966)</b>
<b>Net loss from continuing operations attributable to ATA Creativity Global</b>		<b>(63,739,673)</b>	<b>(127,148,186)</b>	<b>(92,198,032)</b>	<b>(14,129,966)</b>
<b>Net income from discontinued operations attributable to ATA Creativity Global</b>		<b>918,665,587</b>	<b>4,894,197</b>	<b>—</b>	<b>—</b>
<b>Other comprehensive income (loss):</b>					
Foreign currency translation adjustment, net of nil income tax		(11,437,409)	810,197	53,445	8,191
<b>Total other comprehensive income (loss)</b>		<b>(11,437,409)</b>	<b>810,197</b>	<b>53,445</b>	<b>8,191</b>
<b>Comprehensive income (loss)</b>		<b>839,164,096</b>	<b>(128,408,102)</b>	<b>(100,531,303)</b>	<b>(15,407,096)</b>
Comprehensive loss attributable to redeemable non-controlling interests from continuing operations		(3,181,199)	(2,820,682)	(2,582,632)	(395,806)
Comprehensive loss attributable to non-redeemable non-controlling interests from continuing operations		(1,132,602)	(4,143,628)	(5,804,084)	(889,515)
Comprehensive loss attributable to non-redeemable non-controlling interests from discontinued operations		(10,608)	—	—	—
<b>Comprehensive income (loss) attributable to ATA Creativity Global</b>		<b>843,488,505</b>	<b>(121,443,792)</b>	<b>(92,144,587)</b>	<b>(14,121,775)</b>
Basic and diluted earnings (losses) per common share attributable to ATA Creativity Global	(24)	18.25	(2.52)	(1.57)	(0.24)
Basic and diluted losses from continuing operations per common share attributable to ATA Creativity Global	(24)	(1.81)	(2.62)	(1.57)	(0.24)
Basic and diluted earnings from discontinued operations per common share attributable to ATA Creativity Global	(24)	20.06	0.10	—	—

See accompanying notes to consolidated financial statements.



**ATA CREATIVITY GLOBAL**  
Consolidated Statements of Changes in Equity

	Common shares		Treasury Shares	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total shareholders' equity attributable to ATA Creativity Global	Non- redeemable non-controlling interests	Total shareholders' equity
	Number of shares	Amount							
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
<b>Balance as of December 31, 2017</b>	<b>45,796,886</b>	<b>3,534,871</b>	<b>(27,737,073)</b>	<b>389,897,690</b>	<b>(26,850,955)</b>	<b>25,884,905</b>	<b>364,729,438</b>	<b>343,296</b>	<b>365,072,734</b>
Net income (loss)	—	—	—	—	—	854,925,914	854,925,914	(1,143,210)	853,782,704
Foreign currency translation adjustment, net of nil income tax	—	—	—	—	(11,437,409)	—	(11,437,409)	—	(11,437,409)
Share-based compensation	—	—	—	20,591,899	—	—	20,591,899	—	20,591,899
Issuance of common shares with net-settlement of employee individual income tax	—	—	—	(1,727,040)	—	—	(1,727,040)	—	(1,727,040)
Exercise of share options	—	—	—	1,433,441	—	—	1,433,441	—	1,433,441
Special cash dividend (Note 19)	—	—	—	—	—	(946,613,862)	(946,613,862)	—	(946,613,862)
Disposal of discontinued operations	—	—	—	—	—	—	—	(332,688)	(332,688)
Redeemable non-controlling interests redemption value accretion (Note 15)	—	—	—	—	—	(6,085,542)	(6,085,542)	—	(6,085,542)
Sale of non-controlling interests (Note 15)	—	—	—	—	—	—	—	1,500,000	1,500,000
<b>Balance as of December 31, 2018</b>	<b>45,796,886</b>	<b>3,534,871</b>	<b>(27,737,073)</b>	<b>410,195,990</b>	<b>(38,288,364)</b>	<b>(71,888,585)</b>	<b>275,816,839</b>	<b>367,398</b>	<b>276,184,237</b>
Net loss	—	—	—	—	—	(122,253,989)	(122,253,989)	(4,143,628)	(126,397,617)
Foreign currency translation adjustment, net of nil income tax	—	—	—	—	810,197	—	810,197	—	810,197
Share-based compensation	—	—	—	4,809,454	—	—	4,809,454	—	4,809,454
Issuance of common shares with net-settlement of employee individual income tax	1,537,558	103,697	—	(230,420)	—	—	(126,723)	—	(126,723)
Issuance of common shares for acquisition of Huanqiyimeng (Note 3)	9,360,000	656,997	—	76,211,666	—	—	76,868,663	—	76,868,663
Redeemable non-controlling interests redemption value accretion (Note 15)	—	—	—	—	—	(6,008,491)	(6,008,491)	—	(6,008,491)
Issuance of common shares upon private placement	5,662,634	396,747	—	69,827,376	—	—	70,224,123	—	70,224,123
Non-redeemable non-controlling interests resulting from acquisition of Huanqiyimeng (Note 3)	—	—	—	—	—	—	—	6,771,349	6,771,349
Capital contributed by non-redeemable non-controlling interests (Note 15)	—	—	—	—	—	—	—	2,500,000	2,500,000
<b>Balance as of December 31, 2019</b>	<b>62,357,078</b>	<b>4,692,312</b>	<b>(27,737,073)</b>	<b>560,814,066</b>	<b>(37,478,167)</b>	<b>(200,151,065)</b>	<b>300,140,073</b>	<b>5,495,119</b>	<b>305,635,192</b>
Net loss	—	—	—	—	—	(92,198,032)	(92,198,032)	(5,804,084)	(98,002,116)
Foreign currency translation adjustment, net of nil income tax	—	—	—	—	53,445	—	53,445	—	53,445
Share-based compensation	—	—	—	1,776,783	—	—	1,776,783	—	1,776,783
Issuance of common shares with net-settlement of employee individual income tax	343,924	24,363	—	(58,170)	—	—	(33,807)	—	(33,807)
Repurchase of common shares (Note 18)	—	—	(4,003,530)	—	—	—	(4,003,530)	—	(4,003,530)
Redeemable non-controlling interests redemption value accretion (Note 15)	—	—	—	—	—	(6,184,572)	(6,184,572)	—	(6,184,572)
Acquisition of non-redeemable non-controlling interests	—	—	—	(1,145,497)	—	—	(1,145,497)	1,145,497	—
Disposal of subsidiaries	—	—	—	—	—	—	—	6,469	6,469
Settlement of vested share options and vested shares using treasury shares	—	—	20,114,679	(20,114,679)	—	—	—	—	—
<b>Balance as of December 31, 2020</b>	<b>62,701,002</b>	<b>4,716,675</b>	<b>(11,625,924)</b>	<b>541,272,503</b>	<b>(37,424,722)</b>	<b>(298,533,669)</b>	<b>198,404,863</b>	<b>843,001</b>	<b>199,247,864</b>
<b>Balance as of December 31, 2020-US\$</b>		<b>722,862</b>	<b>(1,781,751)</b>	<b>82,953,640</b>	<b>(5,735,590)</b>	<b>(45,752,286)</b>	<b>30,406,875</b>	<b>129,196</b>	<b>30,536,071</b>

See accompanying notes to consolidated financial statements.

**ATA CREATIVITY GLOBAL**  
Consolidated Statements of Cash Flows

	Year Ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	USD
<b>Cash flows from operating activities:</b>				
Net income (loss)	850,601,505	(129,218,299)	(100,584,748)	(15,415,287)
<i>Adjustments to reconcile net income (loss) to net cash used in operating activities:</i>				
Provision for doubtful accounts	3,611,845	—	—	—
Gain from disposal of discontinued operations	(1,126,543,946)	(4,894,197)	—	—
Depreciation and amortization	13,331,272	17,545,060	29,913,815	4,584,493
Loss from disposal of property and equipment	893	—	87,991	13,485
Share-based compensation	20,591,899	4,809,454	1,776,783	272,304
Deferred income tax benefit	(25,969,955)	(8,054,197)	(10,283,238)	(1,575,975)
Loss on disposal of subsidiaries and others	—	7,850	1,767,800	270,927
Impairment loss of long-term investments	6,380,802	26,814,507	1,726,391	264,581
Provision for loan receivable and other receivables	—	17,430,825	5,904,305	904,874
Impairment loss of intangible assets and other non-current assets	—	8,932,439	3,120,425	478,226
Change in fair value of long-term investment (Note 6)	(2,750,000)	—	—	—
Foreign currency exchange loss (gain)	42,887	(56,630)	1,050,043	160,926
<i>Changes in operating assets and liabilities, net of effect of acquisition and disposal:</i>				
Accounts receivable	41,133,635	225,192	(2,030,603)	(311,204)
Prepaid expenses and other current assets	(13,568,373)	(3,615,775)	12,866,352	1,971,855
Other non-current assets	(649,463)	(10,066,863)	(6,552,514)	(1,004,217)
Income tax payable	(14,953,642)	679,961	(571,474)	(87,582)
Accrued expenses and other payables	(67,205,665)	14,737,959	1,678,155	257,189
Deferred revenues	3,320,001	6,846,155	32,257,157	4,943,626
<b>Net cash used in operating activities</b>	<b>(312,626,305)</b>	<b>(57,876,559)</b>	<b>(27,873,360)</b>	<b>(4,271,779)</b>
<b>Cash flows from investing activities:</b>				
Cash paid for property and equipment	(7,110,298)	(1,284,816)	(4,910,407)	(752,552)
Loan lent to Beijing Biztour (Note 5)	(13,745,856)	—	—	—
Cash paid for software platform of Project Shuang Chuang	(2,245,283)	—	—	—
Cash receipt from property and equipment disposal	2,760	—	37,441	5,738
Proceeds received from the sale of non-redeemable non-controlling interests (Note 15)	1,500,000	—	—	—
Payment for acquisition of a subsidiary, less cash acquired	—	(34,554,702)	(15,000,000)	(2,298,851)
Proceeds from acquisition of a subsidiary, less cash paid	215,000	—	287,801	44,107
Cash paid for long-term investments (Note 6)	—	(6,000,000)	—	—
Proceeds from disposal of subsidiaries and others, less cash disposed	—	—	494,737	75,822
Proceeds from disposal of discontinued operations, net of cash disposed in the amount of RMB147,738,996, RMB nil and nil for the years ended December 31, 2018, 2019 and 2020	1,223,119,391	4,894,197	—	—
<b>Net cash provided by (used in) investing activities</b>	<b>1,201,735,714</b>	<b>(36,945,321)</b>	<b>(19,090,428)</b>	<b>(2,925,736)</b>
<b>Cash flows from financing activities:</b>				
Cash paid for employee individual income tax for net-settlement of vested shares	(1,727,040)	(126,723)	(33,807)	(5,181)
Cash contributed by non-controlling interest holder of Muhua Shangce	—	5,000,000	—	—
Cash received from short-term loans	15,000,000	—	19,618,000	3,006,590
Repayment of short-term loans	(15,000,000)	(9,000,000)	(17,808,000)	(2,729,195)
Principal payments on capital lease obligations	(2,988,587)	—	—	—
Cash received upon private placement	—	61,693,192	8,530,931	1,307,422
Cash received for exercise of share options	1,433,441	—	—	—
Special cash dividend (Note 19)	(946,611,803)	—	—	—
Cash paid for repurchase of common shares	—	—	(4,003,530)	(613,568)
<b>Net cash provided by (used in) financing activities</b>	<b>(949,893,989)</b>	<b>57,566,469</b>	<b>6,303,594</b>	<b>966,068</b>

See accompanying notes to consolidated financial statements.

**ATA CREATIVITY GLOBAL**  
Consolidated Statements of Cash Flows (Continued)

	Year Ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	USD
Effect of foreign exchange rate changes on cash	(4,720,020)	866,827	(814,131)	(124,771)
<b>Net decrease in cash and cash equivalents</b>	<b>(65,504,600)</b>	<b>(36,388,584)</b>	<b>(41,474,325)</b>	<b>(6,356,218)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>256,090,942</b>	<b>190,586,342</b>	<b>154,197,758</b>	<b>23,631,840</b>
<b>Cash and cash equivalents at end of year</b>	<b>190,586,342</b>	<b>154,197,758</b>	<b>112,723,433</b>	<b>17,275,622</b>
<i>Supplemental disclosures of cash flow information:</i>				
Cash paid for income tax	232,402,067	209,697	114,003	17,472
Cash refunded for income tax	—	—	(2,869,042)	(439,700)
Cash paid for interest expenses	249,683	231,722	208,220	31,911
<i>Non-cash investing and financing activities:</i>				
Issuance of common shares as the consideration of Huanqiuyimeng Acquisition	—	76,868,663	—	—
Acquisition of non-redeemable non-controlling interests	—	—	1,145,497	175,555
Consideration payable for business acquisition	—	19,642,082	—	—

See accompanying notes to consolidated financial statements.

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

*Description of Business and Organization*

ATA Creativity Global (the “Company” or “ACG”, formerly known as ATA Inc.), through its subsidiaries, consolidated variable interest entity (“VIE”) and VIE’s subsidiaries (collectively referred to as the “Group”), offers a range of educational services consisting primarily of portfolio training service, research-based learning service, overseas study counselling service and other educational services primarily to individual students through its training center network in the People’s Republic of China and abroad.

Prior to the consummation of the ATA Online Sale Transaction as described below, the Company, through its wholly-owned subsidiaries, including ATA Learning (Beijing) Inc. (“ATA Learning”), Zhongxiao Zhixing Education Technology (Beijing) Limited (“Zhongxiao Zhixing”), ATA Online (Beijing) Education Technology Co., Ltd. (“ATA Online”) and its subsidiaries (collectively, referred to as “ATA Online Business”), primarily provided computer-based testing services.

On February 6, 2018, the Company entered into a share purchase agreement (the “Share Purchase Agreement”) with a group of investors to sell all of the outstanding equity interests of ATA Online Business (“ATA Online Sale Transaction” or the “Transaction”). In connection with the completion of the Transaction in August 2018, ATA Learning, Zhongxiao Zhixing, ATA Online and its subsidiaries are no longer consolidated into the Company’s consolidated financial statements. As a result of the Transaction, the Company no longer conducts the computer-based testing services and other testing related services previously operated by ATA Online.

The Company acquired 100% equity interests of Beijing Huanquiymeng Education Consultation Corp. (“Huanquiymeng”), a leading provider of educational services for students in China who are interested in applying for overseas art study in the year of 2019 (“Huanquiymeng Acquisition”). The Company obtained control of Huanquiymeng and its subsidiaries on August 6, 2019 (the “Acquisition Date”). See Note 3.

*VIE Agreements*

PRC regulations prohibit direct foreign ownership of business entities that engage in internet content provision (“ICP”) services in the PRC. The Company and its subsidiaries are foreign owned business entities under the PRC law and accordingly are prohibited from providing ICP services in the PRC, including having ownership of entities engaged in providing such services. ATA Intelligent Learning (Beijing) Technology Limited (“ATA Intelligent Learning” or “VIE”) is engaged to provide, but not limited to, ICP services, such as providing online trainings and platforms in PRC. The Company has no legal ownership interest in ATA Intelligent Learning. The legal ownership interests of ATA Intelligent Learning are 90% owned by Mr. Xiaofeng Ma, the chairman of the board and chief executive officer of the Company, and 10% owned by Mr. Haichang Xiong, general counsel of the Company prior to August 12, 2020 and by Mr. Jun Zhang, president and director of the Company effective from August 12, 2020. Mr. Ma, Mr. Xiong and Mr. Zhang are PRC citizens. All individuals are nominee shareholders of ATA Intelligent Learning and holding their equity interests on behalf of the Company. Through a series of contractual agreements, including loan agreements, a call option and cooperation agreement, an equity interest pledge agreement, an exclusive technical consulting and services agreement and a power of attorney (collectively, the “VIE Agreements”) among ATA Education Technology (Beijing) Limited (“ATA Education”), ATA Intelligent Learning, and their nominee shareholders, the nominee shareholders of ATA Intelligent Learning have granted all their legal rights including voting rights and disposition rights of their equity interests in ATA Intelligent Learning to ATA Education. The nominee shareholders of ATA Intelligent Learning do not participate significantly in income and loss and do not have the power to direct the activities of ATA Intelligent Learning that most significantly impact its economic performance. Accordingly, ATA Intelligent Learning is considered a variable interest entity.

Although the Company does not have an equity investment in ATA Intelligent Learning, the Company has other variable interests in ATA Intelligent Learning through its wholly-owned subsidiary, ATA Education, including (i) ATA Education’s subordinated loans to Mr. Xiaofeng Ma, Mr. Haichang Xiong and Mr. Jun Zhang (used by them to finance their equity investment in ATA Intelligent Learning) and other subordinated loans to ATA Intelligent Learning, (ii) ATA Education’s right, under the loan agreement, to receive all the dividends declared by ATA Intelligent Learning through its nominee shareholders, (iii) ATA Education’s exclusive purchase option, under the call option and cooperation agreement, to acquire (or to have ATA Education’s designee acquire) 100% of the equity interest or assets in ATA Intelligent Learning for a consideration equal to the loans provided by ATA Education to Mr. Xiaofeng Ma, Mr. Haichang Xiong and Mr. Jun Zhang, to the extent permitted under PRC law and (iv) ATA Education, under the call option and cooperation agreement, is obligated to provide financial support to ATA Intelligent Learning’s operation to which ATA Education has no recourse right if ATA Intelligent Learning cannot repay such financing due to its losses.

In accordance with Accounting Standards Codification (“ASC”) 810-10-25-38A, the Company has a controlling financial interest in ATA Intelligent Learning through its wholly-owned subsidiary, ATA Education, because the Company ( i) has the power to direct activities of ATA Intelligent Learning that most significantly impact the economic performance of ATA Intelligent Learning; and (ii) the obligation to absorb the losses and the right to receive benefits of ATA Intelligent Learning that could potentially be significant to ATA Intelligent Learning. Thus, the Company is the primary beneficiary of ATA Intelligent Learning.

Accordingly, the financial statements of ATA Intelligent Learning are consolidated in the Company’s consolidated financial statements. Under the terms of the VIE Agreements, ATA Intelligent Learning’s nominee shareholders have no rights to the net assets nor have the obligations to fund the deficit, and such rights and obligations have been vested to the Company. All of the equity (net assets) and net incomes or losses of ATA Intelligent Learning are attributed to the Company.

The key terms of these VIE Agreements are as follows:

Loan agreements: ATA Education lent to ATA Intelligent Learning’s nominee shareholders, Mr. Xiaofeng Ma, Mr. Haichang Xiong and Mr. Jun Zhang, interest free loans in the amount of RMB 10.0 million, out of which RMB 1.0 million and RMB 9.0 million were stipulated to lend on March 15, 2018 and December 28, 2018, respectively, for the sole purpose of investing in ATA Intelligent Learning as ATA Intelligent Learning’s registered capital. The nominee shareholders of ATA Intelligent Learning can only repay the loans by transferring all of their legal ownership interest in ATA Intelligent Learning to ATA Education or to a third party designated by ATA Education. The nominee shareholders of ATA Intelligent Learning are required to pay to ATA Education all dividends received from ATA Intelligent Learning. The initial terms of the loans are ten years, which may be extended upon the written agreement of ATA Education and ATA Intelligent Learning’s nominee shareholders. The approval of ATA Intelligent Learning is not required for the renewal of the loan agreements nor can ATA Intelligent Learning terminate the loan agreement during the contract term. On March 19, 2019 and April 20, 2019, ATA Education, ATA Intelligent Learning and each of the nominee equity shareholders of ATA Intelligent Learning entered into two supplementary agreements to the VIE agreements, pursuant to which the aggregate amount of loans made by ATA Education to the nominee shareholders of ATA Intelligent Learning for the capitalization of ATA Intelligent Learning was increased from RMB 10.0 million to RMB 50.0 million with all other terms and conditions under the VIE Agreements remain unchanged. According to the supplementary agreements, ATA Education lent additional RMB 40.0 million to the nominee shareholders in 2019 for the sole purpose of investing in ATA Intelligent Learning as ATA Intelligent Learning’s registered capital. On August 12, 2020, the loan agreement entered by Mr. Haichang Xiong with ATA Education, and the rights and obligations of Mr. Haichang Xiong under the two supplementary agreements terminated as a result of the equity interest transfer by Mr. Haichang Xiong to Mr. Jun Zhang in ATA Intelligent Learning, and Mr. Haichang Xiong repaid his borrowing of RMB 5.0 million under such agreements to ATA Education on August 17, 2020. On August 12, 2020, Mr. Jun Zhang, as the new shareholder of ATA Intelligent Learning, entered into a new loan agreement with ATA Education on the same terms as the loan agreement and the two supplementary agreements previously entered by Mr. Haichang Xiong and borrowed RMB 5.0 million from ATA Education on August 17, 2020 pursuant to aforementioned loan agreement.

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

Call option and cooperation agreement: Pursuant to the call option and cooperation agreement entered into among ATA Education, ATA Intelligent Learning and its nominee shareholders, when permitted by applicable laws, ATA Education (or any eligible party designated by ATA Education) shall have the right to acquire, at any time, all of ATA Intelligent Learning's assets or its share equity owned by the nominee shareholders of ATA Intelligent Learning, at a price equal to the sum of the principles of the loans from ATA Education to the nominee shareholders of ATA Intelligent Learning. If ATA Education elects to purchase a portion of ATA Intelligent Learning's share equity or assets, the exercise price for such purpose shall be adjusted accordingly based on the percentage of such share equity or assets to be purchased over the total share equity or assets. Without the prior written consent of ATA Education, ATA Intelligent Learning may not sell or otherwise dispose its assets or beneficial interests, create or allow any encumbrance on its assets or other beneficial interests, enter into any material contracts (except those contracts entered into in the ordinary course of business), or distribute dividends to the nominee shareholders. ATA Education is also obligated to provide financial support to ATA Intelligent Learning's operation to which ATA Education has no recourse right if ATA Intelligent Learning cannot repay such financing due to its losses. This agreement shall be effective upon the execution date and remain effective thereafter. This agreement can only be terminated with the unanimous consent of all parties, except that ATA Education may terminate this agreement with 30 days prior notice to the other parties.

Equity interest pledge agreement: To secure the payment obligations of ATA Intelligent Learning, ATA Intelligent Learning's nominee shareholders have pledged to ATA Education their entire equity ownership interests in ATA Intelligent Learning to guarantee his and ATA Intelligent Learning's performance of obligations under, where applicable, the exclusive technical consulting and services agreement and the call option and cooperation agreement. If ATA Intelligent Learning or the nominee shareholders of ATA Intelligent Learning breach their contractual obligations under these agreements, ATA Education, as pledgee, will have the right to dispose the pledged equity interests. The nominee shareholders of ATA Intelligent Learning agree that, during the term of the equity interest pledge agreements, they will not dispose the pledged equity interests or create or allow any encumbrance on the pledged equity interests, and they also agree that ATA Education's rights relating to the equity pledge shall not be suspended or hampered by the nominee shareholders, their successors or their designates. The term of the equity interest pledge agreement shall commence on March 15, 2018 and shall expire on the earlier of (a) the date on which all outstanding secured obligations are paid in full or otherwise satisfied (as applicable); (b) ATA Education enforces the equity interest pledge agreement pursuant to the terms and conditions, to satisfy its rights under the secured obligations and pledged collateral in full, or (c) the nominee shareholders of ATA Intelligent Learning complete their transfer of the equity interest to another party (individual or legal entity) pursuant to the Call Option and Cooperation Agreement and no longer holds any equity interest in ATA Intelligent Learning. ATA Intelligent Learning has registered these equity interest pledge agreements with the competent Administration for Industry and Commerce on April 27, 2018. The registration of the equity pledge enables ATA Education to enforce the equity pledge against third parties who acquire the equity interests of ATA Intelligent Learning in good faith. According to the equity transfer agreement entered into by Mr. Haichang Xiong and Mr. Jun Zhang, on August 12, 2020, Mr. Haichang Xiong transferred all his equity interest in ATA Intelligent Learning to Mr. Jun Zhang, as well as his obligations and rights under the equity interest pledge agreement entered into by himself. On the same day, Mr. Jun Zhang, as the new shareholder of ATA Intelligent Learning, entered into a new equity interest pledge agreement with ATA Education and ATA Intelligent Learning on the same terms as the equity pledge agreement previously entered by Mr. Haichang Xiong. The term of the equity interest pledge agreements entered by Mr. Jun Zhang shall commence on the date of August 12, 2020 and shall expire on the earlier of the Expiration Conditions. ATA Intelligent Learning has registered the equity interest pledge agreement entered by Mr. Jun Zhang with SAMR, on February 26, 2021.

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

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

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

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

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

The equity interests of ATA Intelligent Learning are legally held by Mr. Ma, Mr. Xiong and Mr. Zhang as nominee shareholders on behalf of ACG. Mr. Ma is chairman of the board and director of ACG, Mr. Xiong is general counsel of ACG and Mr. Zhang is president and director of ACG. Mr. Ma holds approximately 40% of the total ordinary shares of the Company issued and outstanding as of December 31, 2019 and 2020. The Company cannot assure that when conflicts of interest arise, either the nominee shareholders will act in the best interests of the Company or such conflicts will be resolved in the Company's favour. Currently, the Company does not have any arrangements to address potential conflicts of interest between the nominee shareholders and the Company, except that ATA Education could exercise the purchase option under the exclusive option agreement with the nominee shareholders to request them to transfer all of their equity ownership in ATA Intelligent Learning to a PRC entity or individual designated by ATA Education. The Company relies on the nominee shareholders, who are ACG's director and general counsel, who owe fiduciary duties to ACG, to comply with the terms and conditions of the contractual arrangements. Such fiduciary duty requires the nominee shareholders to act in good faith and in the best interests of ACG and not to use their positions for personal gains. If the Company cannot resolve any conflict of interest or dispute between the Company and the nominee shareholders of ATA Intelligent Learning, the Company would have to rely on legal proceedings, which could result in disruption of the Company's business and subject the Company to substantial uncertainty as to the outcome of any such legal proceedings.

The nominee shareholder of ATA Intelligent Learning was changed from Mr. Haichang Xiong to Mr. Jun Zhang on August 12, 2020. There are no substantive changes on the terms of VIE agreements.

The Company's involvement with ATA Intelligent Learning under the VIE Agreements affected the Company's consolidated financial position, results of operations and cash flows as presented below.

The following assets and liabilities information of the Group's VIE as of December 31, 2019 and 2020, and net revenues, net loss and cash flows for the years ended December 31, 2018, 2019 and 2020, were included in the accompanying consolidated financial statements of the Company.

	December 31, 2019 RMB	December 31, 2020 RMB
Cash	435,122	91,118
Prepaid expenses and other current assets	4,180	84,180
<b>Total current assets</b>	<b>439,302</b>	<b>175,298</b>
Long-term investments (i)	89,605,550	75,764,719
Property and equipment, net	11,972	6,167
Other non-current assets	2,590	2,590
<b>Total assets</b>	<b>90,059,414</b>	<b>75,948,774</b>
Accrued expenses and other payables	—	71,562
Payable for business acquisition	19,642,082	4,642,082
Amounts due to related parties (ii)	42,000,000	57,122,000
<b>Total current liabilities</b>	<b>61,642,082</b>	<b>61,835,644</b>
<b>Total liabilities</b>	<b>61,642,082</b>	<b>61,835,644</b>

	Year ended December 31, 2018 RMB	2019 RMB	2020 RMB
Net revenues	—	—	—
Net loss	(7,125,782)	(14,456,886)	(14,304,202)

	Year ended December 31, 2018 RMB	2019 RMB	2020 RMB
Net cash used in operating activities	(172,145)	(1,441,360)	(466,004)
Net cash used in investing activities (iii)	(12,458,500)	(77,492,873)	(15,000,000)
Net cash received from financing activities (iii)	38,000,000	54,000,000	15,122,000

- (i) Long-term investments as of December 31, 2019 and 2020 include investment cost and share of losses of 30.96% equity interest investment in Huanqiyimeng, which is eliminated on consolidation.
- (ii) Amounts due to related parties represent the amounts due to the Company's subsidiaries, which are eliminated on consolidation.
- (iii) For the years ended December 31, 2018, 2019 and 2020, RMB 38,000,000, RMB 54,000,000 and RMB 15,122,000 of net cash received from financing activities respectively were related to the transactions with the Company's subsidiaries, which are eliminated on consolidation. For the year ended December 31, 2018, RMB 12,450,000 of net cash used in investing activities was related to the transactions with the Company's subsidiaries, which are eliminated on consolidation.

In accordance with the VIE Agreements, the Company has the power to direct the activities of ATA Intelligent Learning and can have assets transferred out of ATA Intelligent Learning. Therefore, the Company considers that there are no assets in ATA Intelligent Learning that can be used only to settle obligations of ATA Intelligent Learning, except for the registered capital amounting RMB 50.0 million as of December 31, 2020. None of the assets of ATA Intelligent Learning has been pledged or collateralized. The creditors of ATA Intelligent Learning do not have recourse to the general credit of ATA Education or the Company.

#### *Significant Concentrations and Risks*

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

*Concentration of cash and cash equivalents balances held at financial institutions*



Cash and cash equivalents consist of cash on hand and cash at bank. Cash at bank are deposited in financial institutions at below locations

	December 31, 2019	December 31, 2020
	RMB	RMB
Financial institutions in the mainland of the PRC		
— Denominated in Renminbi (“RMB”)	47,224,436	85,103,159
— Denominated in U.S. Dollar (“USD”)	12,292,950	12,807,586
<b>Total cash balances held at mainland PRC financial institutions</b>	<b>59,517,386</b>	<b>97,910,745</b>
Financial institutions in Hong Kong Special Administrative Region (“HKSAR”) of the PRC		
— Denominated in Hong Kong Dollar (“HKD”)	2,875,819	1,498,135
— Denominated in USD	91,793,594	13,314,551
— Denominated in Great Britain Pound	2	2
<b>Total cash and cash equivalents balances held at HKSAR financial institutions</b>	<b>94,669,415</b>	<b>14,812,688</b>
<b>Total cash and cash equivalents balances held at financial institutions</b>	<b>154,186,801</b>	<b>112,723,433</b>

The bank deposits with financial institutions in the PRC are insured by the government authority up to RMB 500,000. The bank deposits with financial institutions in the HKSAR are insured by the government authority up to HKD 500,000. To limit exposure to credit risk, the Company primarily places bank deposits with large financial institutions in the PRC and HKSAR with acceptable credit rating.

#### *Coronavirus Impact*

Due to the outbreak and global spreading of the Coronavirus (“COVID-19”) since January 2020, the Group’s sales have been and expected to continue being negatively impacted primarily due to the restrictions on international travels and temporary closures of overseas schools for safety considerations.

In particular, the Company’s training centers were mostly closed down from February 2020 to May 2020 as required by local regulatory authorities. After COVID-19 became gradually under control and following the directives of local governments, training centers have progressively resumed operation since June 2020. Students with any on-campus training have been given the option to take their classes online since the COVID-19 outbreak, although some of them prefer the traditional classroom format and have postponed their training, which have adverse impact on the Company’s net revenues to be recognized from portfolio training services. Enrollment from offline training centers have also been adversely affected due to the aforementioned temporary closure of training centers mainly for the first half of the year. The Group is relying on online sales channels and referrals to recruit new customers during this time and expects to enhance student enrollment from offline training centers as the COVID-19 pandemic gradually becomes under control. In addition, the Company’s overseas educational travel services were materially affected by delays and cancellations of tours due to COVID-19 in the year of 2020.

The Company is closely monitoring the development of the COVID-19 pandemic and continuously evaluating any further potential impact on its business, results of operations and financial condition, which the Company believes will depend on the duration and degree of the pandemic. If the outbreak persists or escalates without being effectively controlled in the future, the Company’s business operations and financial performance may be materially and adversely affected as a result of various factors, such as changes in general economic outlook, slowdowns in economic growth and negative business sentiment, and measures taken by government authorities, which may restrict our operations in China and abroad.

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

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

The consolidated financial statements include the financial statements of the Company and its subsidiaries, in which ACG, directly or indirectly, has a controlling financial interest and its variable interest entity, or VIE for which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated upon consolidation.

Non-redeemable non-controlling interests are separately presented as a component of equity in the consolidated financial statements.

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

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

Due to the ATA Online Sale Transaction, which represented a strategic shift and had a major effect on the Group's result of operations, revenues, costs and expenses related to ATA Online Business have been reclassified in the accompanying consolidated financial statements as discontinued operations for all the periods presented. See note 1 and note 25.

**(c) Use of estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates include the fair value determinations of identifiable assets acquired and liabilities assumed, the fair values of share-based payments and other equity investments, the collectability of loan receivable and other receivables, the realizability of deferred income tax assets, the estimate for useful lives and residual values of long-lived assets, the recoverability of long-lived assets, goodwill and long-term investments, determination of estimated stand-alone selling prices of performance obligations, variable consideration and measurement of progress towards completion in revenue recognition. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

**(d) Foreign currency**

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

The Company, ATA Testing Authority (Holdings) Limited ("ATA BVI"), Xing Wei Institute (Hong Kong) Limited ("Xing Wei") and ACG International Group Limited ("ACGIGL")'s functional currency is USD. The functional currency of the Company's PRC subsidiaries is RMB.

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

Assets and liabilities of the Company, ATA BVI, Xing Wei and ACGIGL are translated into RMB using the applicable exchange rate at each balance sheet date. Revenues and expenses are translated into RMB at average rates prevailing during the year. Equity accounts other than retained earnings (accumulated deficits) generated in the current period are translated into RMB using the appropriate historical rates. The resulting foreign currency translation adjustments are recognized as a separate component of accumulated other comprehensive income (loss) within equity. Since RMB is not a fully convertible currency, all foreign exchange transactions involving RMB must take place either through the People's Bank of China (the "PBOC") or other institutions authorized to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC.

For the convenience of the readers, the 2020 RMB amounts included in the accompanying consolidated financial statements have been translated into USD at the rate of USD 1.00 = RMB 6.5250, the noon buying rate in New York cable transfers of RMB per USD as set forth in the H.10 weekly statistical release of Federal Reserve Board, as of December 31, 2020. No representation is made that the RMB amounts could have been, or could be, converted into USD at that rate or at any other rate on December 31, 2020.

**(e) Commitments and contingencies**

In the normal course of business, the Group is subject to contingencies, such as legal proceedings and claims that cover a wide range of matters. Liabilities for such contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed.

**(f) Fair value measurements**

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

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

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

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety. In situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects management's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by management based on the best information available in the circumstances.

**(g) Revenue recognition**

The Group's revenue is primarily generated from portfolio training services, research-based learning services, overseas study counselling services and other educational services through its network in China and abroad as a result of Huanqiyimeng Acquisition on August 6, 2019. See Note 3. Prior to the consummation of the ATA Online Sale Transaction as described in Note 1, the Group primarily provided computer-based testing services and online education services, which have been classified and reported under discontinued operations for all the periods presented. See Note 25.

The Group's revenue is recognized net of Value Added Tax ("VAT"). VAT collected from customers, net of VAT paid for purchases, is recorded as a liability in the consolidated balance sheets until paid to the tax authorities.

Since the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606") on January 1, 2018, the Group recognizes revenues upon the satisfaction of its performance obligation (upon transfer of control of promised goods or services to customers) in an amount that reflects the consideration to which the Group expects to be entitled to in exchange for those goods or services, excluding amounts collected on behalf of third parties (for example, value added taxes).

The transaction price includes variable consideration where the Company's performance may result in full or partial return of the service fees based on the final outcome of the performance targets. The Company estimates the transaction price at contract inception based on expected value method, which the Company believes to be better predict with the amount of consideration to which it will be entitled in the contract. In making the estimate of variable consideration, the Company applies judgments which are inherently subjective. This includes the assessment of the final outcome of the performance targets and its historical experience and performance. The amount of estimated variable consideration included in the transaction price is limited only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable condition is subsequently resolved. Management reviews these estimates on a regular basis. Any changes in these factors which affect the estimated variable consideration and revenue recognized are applied prospectively.

For each performance obligation satisfied over time, the Group recognizes revenue over time by measuring the progress toward complete satisfaction of that performance obligation. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Group's contracts with customers also include promises to transfer multiple services. For these contracts, the Group accounts for individual performance obligations separately if they are capable of being distinct and distinct within the context of the contract. Determining whether products and services are considered distinct performance obligations may require significant judgment. Judgment is also required to determine the stand-alone selling price ("SSP") for each distinct performance obligation. In instances where SSP is not directly observable, such as when the Group does not sell the product or service separately, the Group determines the SSP using information that may include market conditions and other observable inputs. For these contracts with variable consideration, the Group determines that variable consideration is allocated according to the method as described above, because variable consideration is attributable to all of the performance obligations in a contract.

**i) Portfolio training services**

Portfolio training services primarily consist of one-on-one or small-group training at the training centers or online platform in which the teachers provide guidance to students to practice observational drawing or other forms of art work and finally compile the selected pieces to form a portfolio.

Individual students select to enroll either in time-based program in which they can take a pre-determined number of hours of training or in a project-based program in which they are guided to complete a portfolio that usually consists of three to five art projects. Revenue is recognized over a period of time based on the number of training hours expended and total hours of training under the contract with the student since the individual student simultaneously receives and consumes the benefits of the portfolio training services as the Group performs. Under project-based programs, the number of hours of training required to complete a project is not pre-determined and varies depending on the background and requirements of individual student. The Group reassesses the total hours of training pursuant to each contract of project-based program with individual student on a quarterly basis. Any adjustments arising from the changes of estimated training hours are applied prospectively.

ii) Research-based learning services (formerly known as the educational travel services)

The Group provides educational travel services for individual students to bring them art-related experience by providing integration of both travel and study activities in each educational service contract according to the background of individual students. While the educational travel services has been significantly impacted by the coronavirus disease (“COVID-19”) during the year 2020, the Group introduced new services under the “research-based learning services”, which mainly consist of domestic educational travel services, academic educational learning services, workshop experience services and transferrable credit courses. Revenue is recognized when control of the promised services is transferred to customers in an amount of consideration which the Group expects to be entitled to in exchange for those services.

iii) Overseas study counselling services

The Group provides overseas study counselling services to students who intend to study abroad on the following aspects, including but not limited to, customized timetable for applicants, university and program selection, developing paperwork for applications, interview simulation and enrollment documents preparation.

The Group provides integration and customization of the promised services in each overseas study counselling service contract depending on the background and requirements of the students and aims to deliver a combined output for counselling service to cover both academic and practical aspects during the entire process of application. The promised services are highly interdependent and interrelated and are accounted as one performance obligation, as the promised services in a contract are not distinct within the context of the contract. Since the students simultaneously receive and consume the benefits of these services throughout the service period as the Group performs, the Group recognizes revenue over the counselling service period on the basis of costs incurred to-date to the total estimated costs.

iv) Other educational services

Other educational services mainly consist of language training services, junior art education services and in-school classes. Revenue is recognized when control of promised services is transferred to the customers in an amount of consideration to which the Group expects to be entitled to in exchange for those services.

v) K-12 education assessment and other services

The Group derives revenues by providing the assessment reports for the test takers to customers. Revenues from education assessment services are recognized when the Group delivers the reports to customers, which is when the control over the report has been transferred to customers. Fees received in advance are recorded as deferred revenue when the Group has an obligation to transfer goods or services to a customer for which the Group has received consideration.

The Group derives content development revenue by designing test model and providing the developed content to customers. Revenues from content development are recognized when the Group delivers the developed content to customers, which is when the control over the content has been transferred to customers.

The Group adopted ASC 606, *Revenue from Contracts with Customers* from January 1, 2018. The Group has applied the modified retrospective method starting on January 1, 2018 and conducted a review and evaluation over all the contracts that are not completed on January 1, 2018 and concluded that there is nil impact on the retained earnings as of January 1, 2018 as a result of the adoption of new revenue guidance.

**(h) Contract cost**

Sales commissions to sales personnel and third-party agents, and incentives to existing students for referred customers are accounted for as incremental cost of obtaining sales contracts from customers and are initially recognized as an amortizable asset in other non-current assets. Contract cost assets are amortized on the basis consistent with the pattern of the transfer of services to which the assets relate and are included in “sales and marketing expenses” in the consolidated statements of comprehensive income (loss).

**(i) Cost of revenues**

Prior to the Huanquiyimeng Acquisition, cost of revenues consists primarily of content development costs, amortized expenses of education assessment caseware, payroll compensation, and other related costs, which are directly attributable to the rendering of various services. As a result of the Huanquiyimeng Acquisition, cost of revenues primarily consist of (1) teaching fees, payroll compensation for teaching support and administrative staff from the training centers, performance-linked bonuses paid to teachers, rental payments for training centers, as well as costs of course materials and teaching aids for portfolio training services, (2) payroll compensation, outsourcing service costs, lodging and transportation expenses, overseas expenses, and other related costs which are directly attributable to the provision of research-based learning services and overseas study counselling services, and (3) teaching fees, payroll compensation, content development costs, and other related costs, which are directly attributable to the rendering of other educational services and K-12 education assessment and other services.

**(j) Research and development costs**

Research and development costs primarily consist of the costs of equipment used in research and development activities, salaries and benefits, traveling expenses and share-based compensation expenses for the Group’s research and development personnel, the costs of outsourcing services and other costs relating to the design, development, testing and enhancement of the technology systems in support for the rendering of the Group’s products and services. Research and development costs are expensed as incurred. Research and development cost incurred over software developed for internal use and software developed for sale are treated as follows.

*i) Software developed for internal use*

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

*ii) Software developed for sale*

Costs incurred internally in researching and developing a computer software product are charged to expense as research and development costs prior to technological feasibility being established for the product. Once technological feasibility is established, all computer software costs are capitalized until the product is available for general release to customers. Technological feasibility is established upon completion of all the activities that are necessary to substantiate that the computer software product can be produced in accordance with its design specifications, including functions, features, and technical performance requirements.

**(k) Lease**

The Group is a lessee in a number of non-cancellable operating leases, primarily for training center and office spaces.

Periods prior to January 1, 2019

**Operating lease**

The Group leased offices under non-cancellable operating leases. Leases with escalated rent provisions were recognized on a straight-line basis commencing with the beginning of the lease term. There was no contingent rent in the lease agreements. The lease terms ranged between 12 and 36 months.

**Capital lease**

On initial recognition, assets held under capital leases were recorded as property and equipment. At inception of the lease, capital leases were recorded at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Minimum lease payments under capital leases were apportioned between finance expense and reduction of the outstanding liability.

The finance expense was allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Periods commencing January 1, 2019

From January 1, 2019, the Group accounts for leases in accordance with ASC Topic 842, *Leases* (see Note 10). The Group determines if an arrangement is or contains a lease at contract inception. The Group recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date.

Key estimates and judgments include how the Group determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term and (3) lease payments.

- ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, the Group cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, the Group generally uses its incremental borrowing rate as the discount rate for the lease. The Group's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Because the Group does not generally borrow on a collateralized basis, it uses the interest rate it pays on its non-collateralized borrowings as an input to deriving an appropriate incremental borrowing rate, adjusted for the amount of the lease payments, the lease term and the effect on that rate of designating specific collateral with a value equal to the unpaid lease payments for that lease.
- The lease term for all of the Group's leases includes the non-cancellable period of the lease plus any additional periods covered by either the Group's option to extend (or not to terminate) the lease that the Group is reasonably certain to exercise, or an option to extend (or not to terminate) the lease controlled by the lessor.
- Lease payments included in the measurement of the lease liability comprise the following:
  - Fixed payments, including in-substance fixed payments, owed over the lease term (which includes termination penalties the Group would owe if the lease term assumes the Group to exercise a termination option);
  - Variable lease payments that depend on an index or rate, initially measured using the index or rate at the lease commencement date;
  - Amounts expected to be payable under the Group-provided residual value guarantee; and
  - The exercise price of the Group's option to purchase the underlying asset if the Group is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received. For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost is recognized on a straight-line basis over the lease term.

Variable lease payments associated with the Group's leases are recognized when the event, activity, or circumstance in the lease agreement on which those payments are assessed occurs. Variable lease payments are presented as operating expense in the Group's consolidated statements of comprehensive income (loss) in the same line item as expense arising from fixed lease payments for operating leases.

ROU assets for operating lease are periodically reduced by impairment losses. The Group uses the long-lived assets impairment guidance in ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, to determine whether a ROU asset is impaired, and if so, the amount of the impairment loss to recognize.

The Group monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the re-measurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

Operating lease ROU assets are presented as operating lease right of use assets on the consolidated balance sheet. The current portion of operating lease liabilities is included in lease liabilities-current and the long-term portion is presented separately as other non-current liabilities on the consolidated balance sheet.

The Group has elected not to recognize ROU assets and lease liabilities for short-term leases of training centers and offices that have a lease term of 12 months or less. The Group recognizes the lease payments associated with its short-term training centers and offices leases as an expense on a straight-line basis over the lease term.

As of December 31, 2019 and 2020, the Company did not have any finance leases.

The Company adopted the new lease accounting standard since January 1, 2019, and elected to apply the transition provisions of the standard on the date of adoption. Accordingly, the Company didn't restate prior year comparative periods for the impact of the new lease accounting standard. The Company also elected the package of practical expedients permitted under the transition guidance within the new lease accounting standard, including: (1) the Group didn't reassess whether any expired or existing contracts are or contain leases; (2) the Group combined lease and non-lease components for facilities leases, which primarily relate to ancillary expenses such as common area maintenance charges and management fees of its operating leases. In addition, for leases with a term of 12 months or less, an election was made not to recognize lease assets and lease liabilities.

Upon the adoption of the new lease accounting standard ASC 842, the Company recognized right-of-use assets and lease liabilities of approximately RMB 3.5 million and RMB 3.0 million, respectively, at January 1, 2019, consisting primarily of operating leases relating to office space.

**(l) Income taxes**

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

A deferred tax liability is not recognized for the excess of the Company's financial statement carrying amount over the tax basis of its investment in a foreign subsidiary, if there exists specific plans for reinvestment of undistributed earnings of a subsidiary which demonstrates that remittance of the earnings will be postponed indefinitely.

The Group recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Group's accounting policy is to accrue interest and penalties related to unrecognized tax benefits, if and when required, as interest expense and a component of general and administrative expenses, respectively in the consolidated statements of comprehensive income (loss).

**(m) Share-based payment**

The Group measures the cost of employee share options and non-vested shares based on the grant date fair value of the award and recognizes that cost over the period during which an employee is required to provide services in exchange for the award, which generally is the vesting period. For the graded vesting share options and non-vested shares, the Company recognizes the compensation cost over the requisite service period for each separately vesting portion of the award as if the award is, in substance, multiple awards. When no future services are required to be performed by the employee in exchange for an award of equity instruments, and if such award does not contain a performance or market condition, the cost of the award is expensed on the grant date. Awards granted to employees with performance conditions are measured at fair value on the grant date and are recognized as compensation expenses in the period and thereafter when the performance goal becomes probable to achieve.

When there is a modification of the terms and conditions of an award of equity instruments, the Group calculates the incremental compensation cost of a modification as the excess of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the share price and other pertinent factors at the modification date. For vested options, the Group recognizes incremental compensation cost in the period the modification occurred. For unvested options, the Group recognizes, over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. Cancellations in the vesting period are treated as an acceleration of vesting, and recognized immediately for the amount that would otherwise have been recognized for services over the vesting period.

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

**(n) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, cash in banks and highly liquid investments with original maturity less than three months and readily convertible to known amount of cash.

**(o) Accounts receivable and loan receivable**

Accounts receivable are recognized at invoiced amounts, less an allowance for uncollectible accounts, if any.

Prior to January 1, 2020, the allowance for doubtful accounts was the management's best estimate of the amount of probable credit losses resulting from the inability of the Group's customers to make required payments. The allowance for doubtful accounts was based on a review of specifically identified accounts, aging data and historical collection pattern. Account balances were charged off against the allowance after all means of collection had been exhausted and the potential for recovery is considered remote. The Group did not have any off-balance-sheet credit exposure related to its customers.

In connection with the adoption of *ASC 326 Financial Instruments-Credit Losses* (the "ASC 326") on January 1, 2020, the new accounting standard replaced the incurred loss impairment methodology for recognizing credit losses with a new methodology that requires recognition of lifetime expected credit losses when a financial asset is originated or purchased, even if the risk of loss is remote, which results in losses being recognized earlier. The new methodology (referred to as the current expected credit losses model, or "CECL") applies to most financial assets measured at amortized cost, including accounts receivables and loan receivable, and requires consideration of a broader range of reasonable and supportable information to estimate expected credit losses. The Company adopted the new accounting standard as of January 1, 2020 using a modified retrospective transition approach and did not make any opening balance sheet adjustments due to the immaterial amounts. The adoption did not have a material impact on the Company's consolidated financial statements and related disclosures.

**(p) Long-term investments**

***Equity method investments***

The Group applies the equity method to account for an equity interest in an investee over which the Group has significant influence but does not own a majority equity interest or otherwise control.

Under the equity method of accounting, the Group's share of the investee's results of operations is reported as investment income (losses) in the consolidated statements of comprehensive income (loss).

The Group recognizes an impairment loss when there is a decline in value below the carrying value of the equity method investment that is considered to be other than temporary. The process of assessing and determining whether impairment on an investment is other than temporary requires a significant amount of judgment. To determine whether an impairment is other than temporary, management considers whether it has the ability and intent to hold the investment until recovery and whether evidence indicating the carrying value of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the decline in value, any change in value subsequent to the period end, and forecasted performance of the investee.

***Other equity investments***

In connection with the adoption of *ASC 321 Investment—Equity securities* as of January 1, 2018, the Group have elected to measure such investments at cost, adjusted for changes resulting from impairments and observable price changes in orderly transactions for identical or similar securities of the same issuer. The Group considers information in periodic financial statements and other documentation provided by the investees to determine whether observable price changes have occurred.

The Group makes a qualitative assessment considering impairment indicators to evaluate whether the equity investments without a readily determinable fair value is impaired at each reporting period, and write down to its fair value if a qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying value. If an equity security without a readily determinable fair value is impaired, the Group includes an impairment loss in net income equal to the difference between the fair value of the investment and its carrying amount.



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

Property and equipment is stated at historical cost.

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

Building	30 years
Computer equipment	3 to 5 years
Furniture, fixtures and office equipment	3 to 5 years
Software	3 to 10 years
Motor vehicles	5 years
Leasehold improvements	The shorter of lease terms and estimated useful lives

Ordinary maintenance and repairs are charged to expenses as incurred, while replacements and betterments are capitalized. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value of the item disposed and proceeds realized thereon.

**(r) Intangible assets**

Intangible assets mainly consist of externally purchase text content and software platform and acquired intangible assets resulting from the acquisitions of entities accounted for using the acquisition method of accounting, which are estimated by management based on the fair value of assets acquired at the acquisition date. Intangible assets are amortized on a straight-

line basis over their respective estimated useful lives, which range from 1.4 to 10 years.

The Group has no intangible assets with indefinite useful lives.

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

Long-lived assets, including property and equipment, intangible assets, other non-current assets subject to amortization and right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Group first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

**(t) Goodwill**

*Periods prior to January 1, 2020*

Goodwill represents the excess purchase price over the estimated fair value of net assets acquired in a business combination. Goodwill is reviewed for impairment at least annually based on the Group's reporting units, which are defined as operating segments or one level below the operating segments (also known as components). The Group performs a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required.

If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit's goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed.

The Group performs goodwill impairment testing on an annual basis and whenever events or changes in circumstances indicate that the carrying value of a reporting unit likely exceeds its fair value.

*Periods commencing January 1, 2020*

In connection with the adoption of *ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* as of January 1, 2020, the goodwill impairment test was simplified by comparing the fair value of a reporting unit with its carrying amount and an impairment charge is measured as the amount by which the carrying amount exceeds the reporting unit's fair value. The Company adopted ASU 2017-04 on January 1, 2020. The adoption did not have a material impact on the Company's consolidated financial statements.

**(u) Employee benefit plans**

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

Employee benefit expenses recognized under these plans for the years ended December 31, 2018, 2019 and 2020 are allocated to the following expense items:

	Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Cost of revenues	79,280	2,363,553	3,022,423
Research and development	3,232,457	2,468,898	962,709
Sales and marketing	771,479	2,077,128	1,881,648
General and administrative	1,530,096	3,301,256	2,576,853
<b>Total expense due to employee benefit plans</b>	<b>5,613,312</b>	<b>10,210,835</b>	<b>8,443,633</b>

**(v) Earnings per share**

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

Diluted earnings per share is calculated by dividing net earnings adjusted for the effect of dilutive common equivalent shares, if any, by the weighted average number of common and dilutive common equivalent shares outstanding during the year. Common equivalent shares consist of common shares issuable upon the exercise of outstanding share options (using the treasury stock method). Common equivalent shares in the diluted earnings per share computation are excluded to the effect that they would be anti-dilutive.

The Group uses income (loss) from continuing operations as the control number in determining whether the potential common shares are dilutive or anti-dilutive.

**(w) Segment reporting**

The Group's chief operating decision maker has been identified as the Chief Executive Officer who reviews financial information of operating segments based on US GAAP amounts when making decisions about allocating resources and assessing performance of the Group. The Group uses the management approach in determining operating segments. The management approach considers the internal reporting used by the chief operating decision maker for making operating decisions about the allocation of resources and the assessment of its performance in determining the Group's operating segments. As a result of the Huanquiyimeng Acquisition as described in Note 1, the Group classified the operating segments for the years ended December 31, 2019 and 2020 into (i) Overseas art study services (ii) Other educational services and (iii) K-12 education assessment and other services. The Group had one operating segment which included K-12 education assessment and other services for the year ended December 31, 2018. Substantially all of the Group's operations, customers and long-lived assets are located in the PRC. Consequently, no geographic information is presented.

**(x) Discontinued operations**

When a component of the Group's business is sold or expected to be sold during the year, the Group considers whether the criteria of ASC 205-20, *Discontinued Operations*, has been met, which includes evaluating if the disposal of a component represents a strategic shift that has, or will have, a major effect on the Group.

When a discontinued operation is disposed of before being classified as held for sale, the Company presents the assets and liabilities of the discontinued operation separately from other assets and liabilities on the consolidated balance sheet before the period that includes the disposal.

(y) **Business combination**

Business combinations are recorded using the acquisition method of accounting in accordance with ASC topic 805 (“ASC 805”): *Business Combinations*. The acquisition method of accounting requires an acquirer to determine the identifiable acquired assets, the liabilities assumed and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. The consideration transferred for an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities assumed, and equity instruments issued as well as the contingent considerations as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total cost of the acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

(z) **Recently issued accounting standards**

In December 2019, the FASB issued ASU 2019-12, *Income Tax (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”). ASU 2019-12 removes certain exceptions for recognizing deferred taxes for investments, performing intra-period allocation and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for goodwill and allocating taxes to members of a consolidated group. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the effect of the disclosure requirements of ASU 2019-12 on the Company's consolidated financial statements.

(3) **BUSINESS ACQUISITION**

***Acquisition of Huanqiuyimeng***

In 2019, the Company entered into share purchase agreements with all of the selling shareholders of Huanqiuyimeng to acquire 100% equity interests of Huanqiuyimeng in exchange for 9,360,000 ordinary shares of the Company and RMB 91.1 million consideration in cash.

The Group obtained the control of Huanqiuyimeng business on August 6, 2019 and paid cash consideration of RMB 71,483,973 and RMB15,000,000 for the years ended December 31, 2019 and 2020, respectively. The Company paid off the remaining consideration amount in March 2021.

The Company accounted for the acquisition of Huanqiuyimeng under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. The Group determined the fair values of assets acquired and liabilities assumed for this acquisition with assistance of an independent appraiser. The goodwill resulting from the acquisition is primarily attributable to the assembled workforce and established network of training centers around China and abroad. The acquired goodwill is not deductible for tax purposes. A summary of identifiable assets acquired and liabilities assumed in connection with the acquisition is as follows:

	RMB
Purchase consideration:	
Cash	91,126,055
Fair value of 9,360,000 ordinary shares	76,868,663
	<b>167,994,718</b>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	36,785,802
Prepaid expenses and other current assets	26,333,563
Long-term investments	157,850
Property and equipment, net	8,505,683
Intangible assets	
Trademark	79,000,000
Non-compete arrangements	56,000,000
Order backlogs	4,000,000
Other non-current assets	881,926
Right-of-use assets	32,089,416
Deferred revenues	(163,400,000)
Short-term loan	(13,991,000)
Lease liabilities-current	(18,728,346)
Deferred income tax liabilities	(45,659,880)
Accrued expense and other payables	(14,326,672)
Lease liabilities-non-current	(13,361,070)
<b>Total identifiable assets acquired and liabilities assumed</b>	<b>(25,712,728)</b>
Fair value of non-redeemable non-controlling interests in Huanqiuyimeng	(6,771,349)
Goodwill	200,478,795

The intangible assets consist of trademark, non-compete arrangements and order backlogs. The fair values of trademark of RMB79,000,000, non-competition arrangements of RMB 56,000,000 and order backlogs of RMB 4,000,000 are amortized over 10 years, 6 years and 1.4 years, respectively on a straight-line basis.

The appraiser adopted relief from royalty method to estimate the fair value of trademark as at August 6, 2019. This approach is based on the assumption that, if an intangible asset has to be licensed from a third-party owner, a royalty rate on turnover will be charged for the privilege of using the asset. The significant inputs for the valuation model include, but not limited to, projected revenue, remaining useful life and discount rates.

The appraiser adopted with and without method to estimate the fair value of non-compete arrangements as at August 6, 2019. The fair value of non-compete arrangements were derived by comparing the discounted cash flow models under the income approach for the two scenarios – one is based on the scenario where the non-compete arrangements are in place and the other is where it is not in place. The significant inputs for the valuation model include, but not limited to, remaining useful life, financial forecasts for the scenario without non-compete arrangements in place, discount rate and probability of competition.

The appraiser adopted discounted cash flow method to estimate the fair value of deferred revenues as at August 6, 2019. The fair value of the deferred revenues was estimated based on the costs of fulfilling the obligations plus a normal profit margin. The significant inputs for the valuation model include, but not limited to, projected direct cost, savings on selling effort, profit margin and discount rate.

The appraiser adopted price-to-sales method to estimate fair value of the non-controlling interests as at August 6, 2019. The price-to-sales multiple is referred to the purchase consideration and the revenue of Huanqiuyimeng. Considering the comparability of each entity with non-controlling interests, the appraiser adopted such multiple in deriving the non-controlling interests.

As of the acquisition date, the goodwill acquired in the business combination was assigned to the overseas art study services reporting unit of RMB 176,046,647 and to the other educational services reporting unit of RMB 24,432,148 based on the excess of the fair value of each acquired reporting unit over the fair value of individual assets acquired and liabilities assumed that are assigned to each reporting unit.

The following summarized unaudited pro forma results of operations for the years ended December 31, 2018 and 2019 assuming that the acquisition of Huanquiyimeng occurred as of January 1, 2018. The unaudited pro forma financial information is supplemental information only and is not necessarily indicative of the results of operations which actually would have been had the acquisitions occurred as of January 1, 2018, nor is it indicative of future operating results.

	For the years ended December 31,	
	2018	2019
	RMB	RMB
	(Unaudited)	(Unaudited)
Pro forma net revenues	105,071,457	201,416,606
Pro forma net income (loss) attributable to ATA Creativity Global	757,139,789	(174,265,822)

The amounts of net revenues and net loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2019 is RMB 91,422,138 and RMB 24,291,035, respectively.

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

Prepaid expenses and other current assets consist of the following:

	December 31, 2019	December 31, 2020
	RMB	RMB
Amount due from Beijing Biztour	1,960,403	—
VAT-input deductible	1,893,650	1,340,830
Income tax refundable	2,800,622	29,529
Advances to employees	1,605,908	253,608
Other current assets	8,229,786	4,347,006
<b>Total prepaid expenses and other current assets</b>	<b>16,490,369</b>	<b>5,970,973</b>

Other current assets primarily consist of advances to suppliers for deposits, prepaid rent expenses, advertising fee and prepaid cost for research-based learning services.

#### (5) LOAN RECEIVABLE, NET

On March 26, 2018, the Company entered into a framework agreement with the selling shareholders of Beijing Biztour International Travel Service Co., Ltd. ("Beijing Biztour") in order to acquire Beijing Biztour. Pursuant to the framework agreement, the Company provided a one-year loan of US\$2.0 million at an annual interest rate of 8.0% to Beijing Biztour.

The Company had also advanced RMB 7.5 million from August 2018 to February 2019 to fund the operation of Beijing Biztour. On March 6, 2019, The Company terminated the acquisition of Beijing Biztour because Beijing Biztour and the selling shareholders of Beijing Biztour did not satisfy certain closing conditions for such acquisition.

The loan receivable became overdue on April 6, 2019. On April 30, 2019, the due dates of loan receivable and other receivables due from Beijing Biztour were extended to September 30, 2019. The controlling shareholder of Beijing Biztour made a personal guarantee and agreed with certain real estate property mortgage. The loan receivable and other receivables due from Beijing Biztour became overdue again since October 1, 2019. Management assessed the collectability of loan receivable and other receivables due from Beijing Biztour and used the fair value of real estate adjusted by the estimated costs to sell to measure impairment and recorded a provision of RMB 17.4 million for the year ended December 31, 2019. The Company is currently in the legal process of recovering the loan receivable balance. Management deems the likelihood of collecting the outstanding balance of loan receivable and other receivables remote and recorded an impairment of RMB 5.9 million for the year ended December 31, 2020.

(6) LONG-TERM INVESTMENTS

Other equity investments

	December 31, 2019	December 31, 2020
	RMB	RMB
EEO Group (Beijing Empower Education Online Co., Ltd. as of December 31, 2019)	38,000,000	38,000,000
ApplySquare Education & Technology Co., Ltd.	1,576,391	—
Beijing Xiaozhi Education & Technology Co., Ltd.	6,000,000	6,000,000
Beijing Futou Technology Co., Ltd.	150,000	—
<b>Total other equity investments</b>	<b>45,726,391</b>	<b>44,000,000</b>

During the year ended March 31, 2017, the Group entered into shares purchase agreements to acquire 8.33% equity interest of Beijing Empower Education Online Co., Ltd. (“EEO”), 9% equity interest of ApplySquare Education & Technology Co., Ltd (“ApplySquare”), and 8.2% equity interest of Beijing GlobalWisdom Information Technology Co., Ltd. (“GlobalWisdom”), by paying cash consideration of RMB 32,500,000, USD 3,000,000 (equivalent to RMB 19,721,700), and RMB 12,300,000 respectively. ACG accounted for these investments as other equity investments using the cost method of accounting prior to January 1, 2018 in accordance with ASC325, *Investments—Others*, since these investments are not in-substance common stock due to the liquidation preference feature, and do not have readily determinable fair value.

In April 2017, ACG entered into a capital increase agreement to make an additional investment of RMB 5,500,000 in EEO. The consideration has been paid to EEO in June 2017. After this additional investment, ACG invested a total of RMB 38,000,000 in EEO, and accounted for the investment under cost method in accordance with ASC325, *Investments—Others* as of December 31, 2017, since the investment is not in-substance common stock due to the liquidation preference feature, and does not have readily determinable fair value.

On July 26, 2017, GlobalWisdom entered into a financing agreement with new investors. After GlobalWisdom’s new financing, ACG’s equity shares decreased to 6.8345% and ACG still has the right to appoint one director. Because these investment terms contain substantive liquidation preference over common stock that are not available to common shareholders, these investments are not substantially similar to common stock and ACG accounted for the investment under cost method in accordance with ASC325, *Investments—Others* as of December 31, 2017.

In connection with adoption of ASC321 *Investment—Equity securities* effective January 1, 2018, the Group elected to measure other equity investments without readily determinable fair value at cost adjusted for changes resulting from impairments, if any, and observable price changes in orderly transactions for the identical or similar securities of the same issuer.

On June 20, 2018, ApplySquare entered into a financing agreement with a group of new investors. After Applysquare’s new financing, ACG’s equity shares decreased from 9% to 7.95% and ACG still has the right to appoint one director. The new financing provided the observable price for ACG’s investment and ACG engaged a third-party appraiser to evaluate this investment’s carrying amount based on the observable price, and recognized a gain of RMB 2,750,000 from the change in fair value. ACG accounts for the investment in ApplySquare at cost adjusted for observable price changes for the year ended December 31, 2018. As of December 31, 2019, ACG made a qualitative assessment and identified that Applysquare failed to meet the expected milestones and operation forecasts and encountered shortage of working capital resulted from continuous negative operating cash flows, which indicates that impairment exists. ACG engaged a third-party appraiser to evaluate the fair value of the investment in Applysquare as of December 31, 2019 and recorded an impairment loss of RMB 20,895,309 based on the valuation result. Due to its severe shortage of working capital and negative market impact on its business in the third quarter of 2020, the Group recognized the impairment loss of RMB 1,576,391 to reduce the investment to zero.

As of December 31, 2018, ACG made a qualitative assessment and identified that GlobalWisdom failed to meet the expected milestones and operation forecasts and encountered shortage of working capital resulted from continuous negative operating cash flows, which indicates that impairment exists. ACG engaged a third-party appraiser to evaluate the fair value of the investment in GlobalWisdom as of December 31, 2018 and recorded an impairment of RMB 6,380,802 based on the valuation result. Due to its severe shortage of working capital and negative market impact on its business in the third quarter of 2019, the Group recognized the impairment loss of RMB 5,919,198 to reduce the investment to zero.

In December 2018, ACG entered into shares purchase agreement to acquire 20% equity interest of Beijing Xiaozhi Education Technology Co., Ltd. (“Xiaozhi”) in exchange for RMB 6,000,000 in cash. According to the shares purchase agreement, ACG has the right to appoint one director. The Company paid RMB 6,000,000 in cash to Xiaozhi in January 2019. The Group accounted for investment in Xiaozhi as other equity investments since these investments are not in-substance common stock due to the liquidation preference feature, and do not have readily determinable fair value. The Group elected to measure other equity investments without a readily determinable fair value at cost adjusted for changes resulting from impairments, if any, and observable price changes in orderly transactions for the identical or similar securities of the same issuer.

Long-term investment in Beijing Futou Technology Co., Ltd (“Futou Technology”) was acquired in connection with the acquisition of Huanqiuyimeng, which held 15% equity interests in Futou Technology. Due to its severe shortage of working capital and negative market impact on its business in the fourth quarter of 2020, the Group recognized the impairment loss of RMB 150,000 to reduce the investment to zero.

In July 2020, EEO underwent an internal reorganization pursuant to which the Company exchanged its equity interest in EEO to EEO Group, a newly established holding company incorporated in Cayman Islands. The equity interests in EEO Group are substantially equivalent to the exchanged equity interests in EEO. EEO Group also entered into two rounds of financing agreements with certain new investors in July and November 2020, respectively. After the internal reorganization and new financings in 2020, ACG's equity interest in EEO Group decreased from 8.33% to 4.822%. Since the securities issued during new financing arrangements are not identical or similar securities in terms of rights and obligations to the equity securities held by the Company, the Company doesn't adjust the carrying amount of the long-term investments in EEO Group.

## (7) FAIR VALUE MEASUREMENT

The following tables present the placement in the fair value hierarchy of assets that are measured at fair value on a non-recurring basis at December 31, 2019 and 2020:

	Fair value disclosure or measurement at December 31, 2019 using			
	December 31, 2019	Level 1	Level 2	Level 3
	RMB	RMB	RMB	RMB
<b>Other equity investments</b>				
ApplySquare Education & Technology Co., Ltd.	1,576,391	—	—	1,576,391
Beijing GlobalWisdom Information Technology Co., Ltd.	—	—	—	—
	Fair value disclosure or measurement at December 31, 2020 using			
	December 31, 2020	Level 1	Level 2	Level 3
	RMB	RMB	RMB	RMB
<b>Other equity investments</b>				
Beijing Futou Technology Co., Ltd.	—	—	—	—
ApplySquare Education & Technology Co., Ltd.	—	—	—	—

The other equity investments without readily determinable fair value are recorded at fair value only if an impairment or observable price adjustment is recognized in the current period. If an impairment or observable price adjustment is recognized on the equity securities during the period, the Company will classify these assets as Level 3 within the fair value hierarchy based on the nature of the fair value inputs.

ApplySquare entered into a new financing agreement with a group of new investors in 2018, which provided the observable price for ACG's investment and the fair value adjustments are determined primarily based on the market approach as of the transaction date. As a result, the Group recognized a gain of RMB 2,750,000 from the change in fair value for the year ended December 31, 2018.

To estimate the fair value of investment in Applysquare as of December 31, 2019, the Group used Discounted Cash Flow Model ("DCF Model"), which is based on the fair value of the entire invested capital of Applysquare using an income approach. The significant inputs for the valuation model include, but not limited to, future cash flows, discount rate, and the comparable selection set of companies operating in similar businesses. As a result, the Group recorded an impairment loss of RMB 20,895,309 and RMB 1,576,391 for the year ended December 31, 2019 and 2020, respectively.

To estimate the fair value of investment in GlobalWisdom, the Group used DCF Model, which is based on the fair value of the entire invested capital of GlobalWisdom using an income approach. The significant inputs for the valuation model include, but not limited to, future cash flows, discount rate, and the comparable selection set of companies operating in similar businesses. As a result, the Group recorded impairment loss of RMB 5,919,198 for the year ended December 31, 2019 to reduce the investment book value to zero.

To estimate the fair value of investment in Futou Technology, the Group used DCF Model, which is based on the fair value of the entire invested capital of Futou Technology using an income approach. The significant inputs for the valuation model include, but not limited to, future cash flows, discount rate, and the comparable selection set of companies operating in similar businesses. As a result, the Group recorded impairment loss of RMB 150,000 for the year ended December 31, 2020 to reduce the investment book value to zero.

The Group did not have any non-financial assets and liabilities that are measured at fair value on a non-recurring basis as of December 31, 2019 and 2020, respectively.

The Group's financial instruments consist of cash and cash equivalents, accounts receivable, advances to third parties, employees and suppliers, which are included in the prepaid expenses and other current assets, loan receivable, subscription receivable, accrued expenses and other payables and short-term loans, all of which have a carrying amount that approximate fair value because of the short maturity of these instruments.

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

Property and equipment, net consist of the following:

	December 31, 2019 RMB	December 31, 2020 RMB
Building	53,049,213	53,049,213
Computer equipment	3,491,575	3,954,697
Furniture, fixtures and office equipment	1,890,013	1,769,409
Motor vehicles	1,986,506	1,986,506
Software	1,797,197	1,729,921
Leasehold improvements	14,419,590	17,840,533
	76,634,094	80,330,279
Less: accumulated depreciation and amortization	(34,563,300)	(42,211,063)
<b>Property and equipment, net</b>	<b>42,070,794</b>	<b>38,119,216</b>

Total depreciation expense recognized for the years ended December 31, 2018, 2019 and 2020 is allocated to the following expense items:

	Year ended December 31,		
	2018 RMB	2019 RMB	2020 RMB
Cost of revenues	3,802	28,389	214,133
Research and development	640,372	226,173	240,603
Sales and marketing	122,199	35,343	9,597
General and administrative	417,295	4,491,492	7,158,056
Other operating income, net	1,782,454	369,048	398,192
<b>Total depreciation expense</b>	<b>2,966,122</b>	<b>5,150,445</b>	<b>8,020,581</b>

(9) **GOODWILL AND INTANGIBLE ASSETS, NET**

(a) *Goodwill*

The goodwill balance as of December 31, 2019 and 2020 is resulted from the acquisition of Huanquiyimeng, which is primarily attributable to the assembled workforce and established network of training centers around China and abroad.

ACG acquired 100% equity interests of Huanquiyimeng and its subsidiaries in the year of 2019. This acquisition was accounted for under the acquisition method of accounting and the excess of fair values of the consideration and non-controlling interests over the fair value of the identifiable net assets of Huanquiyimeng is recorded as goodwill of RMB 200,478,795.

In May and August 2020, the Group has disposed three campuses in relation to the junior art education service to third parties. A decrease in goodwill of RMB 5,723,832 allocated to these campuses within the junior art education service was recognized based on the relative fair values of the campuses being disposed of and the portion of the reporting unit retained.

The change in the carrying amount of goodwill by reporting unit is as follows:

	Overseas art study services RMB	Others RMB	Consolidate RMB
<b>Balance as of December 31, 2018</b>	—	—	—
Add: Acquisition of Huanquiyimeng	176,046,647	24,432,148	200,478,795
<b>Balance as of December 31, 2019</b>	<b>176,046,647</b>	<b>24,432,148</b>	<b>200,478,795</b>
Less: Disposal of campuses in relation to junior art education service	—	(5,723,832)	(5,723,832)
<b>Balance as of December 31, 2020</b>	<b>176,046,647</b>	<b>18,708,316</b>	<b>194,754,963</b>

The Company performs goodwill impairment testing on an annual basis and whenever events or changes in circumstances indicate that the carrying value of a reporting unit likely exceeds its fair value. This involves estimating the fair value of the reporting units using discounted cash flow models and the key assumptions used in the valuation models include forecasted revenue growth rates, forecasted operating margins and the discount rate.



(b) *Intangible assets*

The following table summarizes the Company's intangible assets, as of December 31, 2019 and 2020.

	December 31, 2019				
	Gross carrying amount	Accumulated amortization /deduction	Impairment	Net carrying amount	Weighted average amortization period
	RMB	RMB	RMB	RMB	Years
Trademark (iii)	79,000,000	(3,291,667)	—	75,708,333	10
Non-compete arrangements (iii)	56,000,000	(3,888,889)	—	52,111,111	6
Order backlogs (iii)	4,000,000	(1,190,476)	—	2,809,524	1.4
Education assessment caseware (i)	9,251,887	(4,281,085)	—	4,970,802	5
Software platform of Project Shuang Chuang (ii)	10,844,339	(2,716,145)	(8,128,194)	—	5
<b>Total intangible assets</b>	<b>159,096,226</b>	<b>(15,368,262)</b>	<b>(8,128,194)</b>	<b>135,599,770</b>	

	December 31, 2020				
	Gross carrying amount	Accumulated amortization /deduction	Impairment	Net carrying amount	Weighted average amortization period
	RMB	RMB	RMB	RMB	Years
Trademark (iii)	79,000,000	(11,191,667)	—	67,808,333	10
Non-compete arrangements (iii)	56,000,000	(13,222,222)	—	42,777,778	6
Order backlogs (iii)	4,000,000	(4,000,000)	—	—	1.4
Education assessment caseware (i)	9,251,887	(6,131,462)	(3,120,425)	—	5
<b>Total intangible assets</b>	<b>148,251,887</b>	<b>(34,545,351)</b>	<b>(3,120,425)</b>	<b>110,586,111</b>	

Total amortization expense recognized for the years ended December 31, 2018, 2019 and 2020 is allocated to the following expense items:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Cost of revenues	1,468,726	2,031,478	1,850,377
Sales and marketing	542,940	1,992,105	—
General and administrative	—	8,371,032	20,042,857
<b>Total amortization expense</b>	<b>2,011,666</b>	<b>12,394,615</b>	<b>21,893,234</b>

- (i) Education assessment caseware is the test content purchased for the Company's strategic K-12 academic assessment business, which includes three subjects of Literature, Mathematics and English over six grades of junior and senior high school. The Company conducted impairment test and identified that no cash inflows were anticipated from the intangible assets relating to the education assessment caseware as of December 31, 2020. As a result, RMB 3,120,425 of impairment loss relating to intangible assets of education assessment caseware was recognized for the year ended December 31, 2020.
- (ii) Software platform of Project Shuang Chuang is the software platform purchased from a third party for providing vocational assessment and training services that focuses on the innovation related competencies of college students. The Company conducted impairment tests and identified that no cash inflows nor feasibility use was anticipated from the intangible assets and other non-current assets recorded relating to the software platform developed under Project Shuang Chuang as of December 31, 2019. As a result, RMB 8,932,439 of impairment loss relating to intangible assets and other non-current assets for software platform of Project Shuang Chuang were recognized for the year ended December 31, 2019. No impairment loss was recognized for the year ended December 31, 2018.
- (iii) Trademark, Non-compete arrangements and Order backlogs were recorded as a result of Huanqiuyimeng Acquisition. See note 3 for details.

As of December 31, 2020, the estimated amortization expense for the next five years is as follows:

	December 31
	RMB
2021	17,233,333
2022	17,233,333
2023	17,233,333
2024	17,233,333
2025	13,344,444

# (10) LEASES

The Company adopted new lease accounting standards ASC 842 since January 1, 2019. The primary leases that the Group entered into were for training center and office spaces.

## *Information as of and for the year ended December 31, 2019 and 2020:*

As of December 31, 2019, the Company has 61 operating leases for training center and office spaces with remaining terms expiring from 2 through 39 months and a weighted average remaining lease term of 1.67 years. Weighted average discount rates used in the calculation of the lease liability is 5.88%. As of December 31, 2020, the Company has 40 operating leases for training center and office spaces with remaining terms expiring from 1 through 61 months and a weighted average remaining lease term of 3.40 years. Weighted average discount rates used in the calculation of the lease liability is 6.60%. The discount rates reflect the estimated incremental borrowing rate, which includes an assessment of the credit rating to determine the rate that the Company would have to pay to borrow, on a collateralized basis for a similar term, an amount equal to the lease payments in a similar economic environment.

Rent expense for the year ended December 31, 2019 and 2020 were RMB 13,903,991 and RMB 29,111,428. There was no variable lease costs or sublease income for leased assets for the year ended December 31, 2019 and 2020.

The impact of ASC 842 on the December 31, 2019 and 2020 consolidated balance sheets was as follows:

	December 31,	December 31,
	2019	2020
	RMB	RMB
<i>Operating leases:</i>		
Right-of-use assets	40,786,291	41,779,086
Lease liabilities-current	20,556,017	16,972,187
Lease liabilities-non-current	12,500,120	24,005,765

Other information related to leases is presented below:

	Year ended December 31,	Year ended December 31,
	2019	2020
	RMB	RMB
<i>Supplemental cash flow information:</i>		
Cash paid for amounts included in measurement of operating leases liabilities	12,850,734	20,376,826
Right-of-use assets acquired in exchange for new operating lease obligations	8,696,875	33,360,187
Right-of-use assets acquired in connection with Huanqiyimeng Acquisition	32,089,416	—
Weighted average remaining lease term	1.67	3.40
Weighted average discount rate	5.88%	6.60%

Maturities of lease liabilities under non-cancellable leases as of December 31, 2020 are as follows:

	<b>Operating leases</b>
	<b>RMB</b>
2021	17,508,218
2022	11,648,328
2023	7,503,992
2024	5,095,177
2025	4,040,559
Thereafter	—
Total undiscounted lease payments	45,796,274
Less: Imputed interest	(4,818,322)
Total lease liabilities	40,977,952
Amounts due within 12 months	16,972,187
Non-current lease liability	24,005,765

Short-term lease expense, with a lease term of 12 months or less, for the year ended December 31, 2019 and 2020 was RMB 2,125,616 and RMB 6,112,893, and short-term lease commitments as of December 31, 2020 are as follows:

	<b>Short-term Lease</b>
	<b>Commitments</b>
	<b>Amount</b>
	<b>RMB</b>
Year ended December 31:	
2021	653,566
	<b>653,566</b>

Rental expense for operating leases for the year ended December 31, 2018 were RMB 2,717,234.

# (11) **SHORT-TERM LOANS**

## **Bank borrowings**

In June 2018, the prior president and director of ACG, Jack Huang, entered into a three-year Commercial Loan Facility (the “Facility”) with China Minsheng Bank Beijing Branch to borrow up to RMB 15,000,000 to support the working capital of ATA Education. The Facility was pledged by the real estate property of Gongyuan 16th floor owned by ATA Education, pursuant to which a corresponding three-year pledge agreement has been entered into between ATA Education and China Minsheng Bank Beijing Branch. Jack Huang and ATA Education also signed an agreement, pursuant to which all drawdowns received from China Minsheng Bank should be transferred to ATA Education and the interests of these drawdowns will be fully paid by ATA Education. ATA Education shall pay interest at 6.525% per annum on the commencement date for each drawdown. The interest rate is subject to potential adjustment based on premium interest rate stipulated by the People’s Bank of China. In June and July 2018, ATA Education has received a total of RMB 15,000,000 drawdowns and this loan has been fully repaid on October 15, 2018. On April 12, 2019, the real estate property of Gongyuan 16th floor was released from pledge and the Facility was terminated correspondingly.

The Group assumed several bank borrowings with short-term loan balance of RMB 13,991,000 in connection with Huanqiyuimeng Acquisition, among which RMB 9,000,000 was repaid during the period from August 6, 2019 to December 31, 2019. Interest expense of RMB 164,930 accrued from these bank borrowings was recognized for the same period in 2019.

The Company entered into several short-term bank borrowings in total amount of RMB13,327,000 in 2020 to support operations of Huanqiyuimeng during the COVID-19 outbreak. RMB16,318,000, which includes the outstanding short-term loan balance of RMB 4,991,000 as of December 31, 2019, was repaid during the year of 2020. The Company recognized interest expenses of RMB 207,697 relating to these bank borrowings in 2020. The outstanding short-term loan balance in bank borrowings was RMB 2,000,000 as of December 31, 2020, which was fully repaid on March 31, 2021.

## Other borrowings

During the year of 2020, to support its daily operations among COVID-19, Muhua Shangce Learning Data & Technology (Beijing) Limited (“Muhua Shangce”), the majority owned subsidiary of the Group obtained short-term borrowings from several parties, including: i) the Group’s CEO and Director, Mr. Xiaofeng Ma, in the amount of RMB 631,000 with no interest; ii) a third-party company, in the amount of RMB 3.0 million at an annual interest rate of 4.35% , which Mr. Xiaofeng Ma has provided a joint liability guarantee; iii) the CEO of Muhua Shangce in the amount of RMB 1,260,000, among which RMB 500,000 at an annual interest rate of 2.00% and RMB760,000 with no interest ; iv) a company controlled by Mr. Xiaofeng Ma in the amount of RMB 500,000 with no interest; v) three third party companies in the amount of RMB 900,000 with no interest. Muhua Shangce has repaid the CEO of Muhua Shangce and three third party companies in total amount of RMB1,490,000 in 2020.

As of December 31, 2019 and 2020, the outstanding short-term loan balance in other borrowings was RMB Nil and RMB 4,801,000, respectively.

## (12) ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables consist of the following:

	December 31, 2019	December 31, 2020
	RMB	RMB
Refund liability*	8,919,239	13,411,410
Accrued payroll and welfare	22,821,689	18,987,415
Accrued test monitoring fees	2,432,153	2,432,153
Accrued professional services expenses	3,489,512	2,291,866
Income taxes payable	679,961	108,488
Other current liabilities	9,404,500	9,788,850
<b>Total accrued expenses and other payables</b>	<b>47,747,054</b>	<b>47,020,182</b>

Other current liabilities as of December 31, 2019 and 2020 mainly include lessees’ rental deposits, accrued traveling, meeting, outsourcing, advertising and other operating expenses.

\*Refund liability represents the estimated amount of refund if a student decides to withdraw from the Group’s programs or services and is estimated based on historical experience.

## (13) NET REVENUES

The components of net revenues for the years ended December 31, 2018, 2019 and 2020, are as follows:

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Portfolio training services	—	63,828,907	113,191,386
Research-based learning services	—	10,456,269	4,452,915
Overseas study counselling services	—	8,091,551	21,059,645
Other educational services	—	9,045,411	20,025,679
K-12 education assessment and other services	1,338,592	6,348,029	3,437,922
<b>Net Revenues</b>	<b>1,338,592</b>	<b>97,770,167</b>	<b>162,167,547</b>

K-12 education assessment and other services revenues primarily include K-12 education assessment services and content development services.

Deferred revenue is recorded when the Group has an obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. Part of the balances as of January 1, 2018 and 2019 were recognized as revenues during the years ended December 31, 2018 and 2019. In addition, changes in the deferred revenue balances during the year ended December 31, 2019 included RMB163,400,000 of deferred revenue acquired in connection with the Huanqiyuimeng Acquisition. See Note 3.

Changes in the deferred revenue balances during the year ended December 31, 2020 are as follows:

	RMB
<b>Balance as of January 1, 2020</b>	<b>171,880,131</b>
Cash received in advance, net of VAT	188,023,246
Revenue recognized from opening balance of deferred revenue	(92,221,808)
Revenue recognized from deferred revenue arising during current year	(68,036,452)
Disposal of subsidiaries and campuses in relation to junior art education services	(4,689,176)
Change of refund liabilities	4,492,171
<b>Balance as of December 31, 2020</b>	<b>199,448,112</b>

#### (14) INCOME TAXES

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

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

##### *Hong Kong*

Xing Wei did not derive any income that is subject to Hong Kong profits tax for the taxable years ended December 31, 2018, 2019 and 2020. Accordingly, no provision for Hong Kong profits tax was required. PRC income tax arising from disposal of investment in a prior subsidiary, Zhongxiao Zhixing, which was previously operating in PRC, was filed and paid during the taxable year ended December 31, 2018. The payment of dividends by Hong Kong companies is not subject to any Hong Kong withholding tax.

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

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

Under the Enterprise Income Tax Law ("EIT Law"), the statutory income tax rate is 25% effective from January 1, 2008. Entities that qualify as "high-and-new technology enterprises eligible for key support from the State" ("HNTE") are entitled to a preferential income tax rate of 15%. If an HNTE enterprise no longer satisfies the related accreditation criteria, its certificate will be cancelled and it will cease to be entitled to the related tax incentives.

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

In December 2008, ATA Education received approval from the tax authority that it qualified as an HNTE. The certificate entitled ATA Education to the preferential income tax rate of 15% effective retroactively from January 1, 2008 to December 31, 2010. In October 2011, ATA Education received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2011 to December 31, 2013. In October 2014, ATA Education received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2014 to December 31, 2016. In October 2017, ATA Education received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2017 to December 31, 2019. In December 2020, ATA Education received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2020 to December 31, 2022.

In December 2009, Muhua Shangce received approval from the tax authority that it qualified as an HNTE. The certificate entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2009 to December 31, 2011. In July 2012, Muhua Shangce received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2012 to December 31, 2014. In November 2015, Muhua Shangce received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2015 to December 31, 2017. In October 2018, Muhua Shangce received approval from the tax authority on its renewal as an HNTE which entitled it to the preferential income tax rate of 15% effective retroactively from January 1, 2018 to December 31, 2020. Muhua Shangce is currently in the process of renewing its HNTE certificate for another three years.

The EIT Law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings generated beginning January 1, 2008. Undistributed earnings generated prior to January 1, 2008 are exempt from withholding tax. As a result of the ATA Online Sale Transaction, the withholding tax of RMB 22.8 million accrued from ATA Online Business in the PRC has been recorded under discontinued operations. See note 25. As of December 31, 2019 and 2020, the Company has not provided for income taxes on earnings of RMB 6,233,021 and RMB 2,270,928 respectively, generated by its PRC consolidated entities, as the Company plans to reinvest these earnings indefinitely in the PRC. The unrecognized deferred income tax liability related to these earnings was RMB 623,302 and RMB 227,093, respectively as of December 31, 2019 and 2020.

Loss from continuing operations before income taxes were generated in the following jurisdictions:

	Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Cayman Islands and British Virgin Islands	(29,296,296)	(23,094,955)	(15,482,426)
PRC	(39,680,573)	(118,145,074)	(95,351,791)
Hong Kong	923,395	(21,586)	(19,367)
<b>Loss before continuing operations before income taxes</b>	<b>(68,053,474)</b>	<b>(141,261,615)</b>	<b>(110,853,584)</b>

Income tax expense (benefit) recognized in the consolidated statements of comprehensive income (loss) consists of the following:

	Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
<b>PRC</b>			
Current income tax expense	—	905,078	14,402
Deferred income tax benefit	—	(8,054,197)	(10,283,238)
<b>Total income tax benefit</b>	<b>—</b>	<b>(7,149,119)</b>	<b>(10,268,836)</b>

The actual income tax expense (benefit) reported in the consolidated statements of comprehensive income (loss) differs from the respective amount computed by applying the PRC statutory income tax rate of 25% for each of the years ended December 31, 2018, 2019 and 2020 to earnings before income taxes due to the following:

	Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
<b>Computed “expected” income tax expenses (benefit)</b>	<b>(17,013,369)</b>	<b>(35,315,404)</b>	<b>(27,713,394)</b>
Increase (decrease) in valuation allowance	(14,570,083)	23,171,671	11,770,037
Entities not subject to income tax	4,896,732	4,576,771	3,445,048
<i>Non-deductible expenses</i>			
Entertainment	255,843	394,380	226,312
Share-based compensation	2,427,342	1,202,364	444,196
Bad debt loss	25,206	—	—
Additional deduction of research and development costs	(447,525)	(240,404)	(288,502)
Gain from discharge of intercompany payables (a)	25,594,493	—	—
Investment loss from sale of non-redeemable non-controlling interests (b)	(1,725,000)	—	—
Other	556,361	(938,497)	1,847,467
<b>Actual income tax benefit</b>	<b>—</b>	<b>(7,149,119)</b>	<b>(10,268,836)</b>

- (a) The gain from discharge of intercompany payables represents the gain recognized from the discharge of payables of ATA Education due to ATA Learning, Zhongxiao Zhixing and ATA BVI. These payables were waived in accordance with the terms agreed in the ATA Online Sale Transaction.
- (b) The investment loss from sale of non-redeemable non-controlling interests represents the investment loss recognized from the transfer of 24% equity shares of Muhua Shangce to a limited partnership named Ningbo Meishan Bonded Port Area Zunming Investment Management Center (Limited Partnership) (“Limited Partnership”) from ATA Education for the year ended December 31, 2018. See note 15.

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

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

	December 31, 2019 RMB	December 31, 2020 RMB
Deferred income tax assets:		
Tax loss carry forwards	28,153,853	37,387,150
Impairment loss of long-term investments	10,148,827	9,023,946
Lease liability	8,264,034	10,244,488
Impairment loss of intangible assets and other non-current assets	2,233,110	3,013,216
Provision for other receivables	1,396,914	1,887,015
Accrued expenses and other payables	4,213,877	4,010,281
Property and equipment, net	702,523	890,374
Donation	2,768,750	5,268,750
<b>Total gross deferred income tax assets</b>	<b>57,881,888</b>	<b>71,725,220</b>
Less: valuation allowance	(44,713,570)	(56,172,945)
<b>Total deferred income tax assets, net</b>	<b>13,168,318</b>	<b>15,552,275</b>
Deferred income tax liabilities:		
Intangible assets	32,657,242	27,646,528
Right-of-use assets	10,196,572	9,891,733
Deferred revenues	7,091,422	1,090,988
Contract cost assets	—	3,416,705
<b>Total gross deferred income tax liabilities</b>	<b>49,945,236</b>	<b>42,045,954</b>
<b>Net deferred income tax assets</b>	<b>11,464,891</b>	<b>2,491,792</b>
<b>Net deferred income tax liabilities</b>	<b>48,241,809</b>	<b>28,985,472</b>

The movements of the valuation allowance are as follows:

	Year Ended December 31,		
	2018 RMB	2019 RMB	2020 RMB
Balance at the beginning of the period	35,845,674	21,275,591	44,713,570
Additions	11,024,410	23,437,979	11,770,037
Reduction as a result of disposal of subsidiaries	—	—	(310,662)
Reduction due to gain from discharge of intercompany payables	(25,594,493)	—	—
Balance at the end of the period	<b>21,275,591</b>	<b>44,713,570</b>	<b>56,172,945</b>

As of December 31, 2020, the valuation allowance of RMB 56,172,945 was related to the deferred income tax assets of PRC entities which were in loss position. As of December 31, 2020, management believes it is more likely than not that the Group will realize the deferred income tax assets, net of the valuation allowance.

As of December 31, 2020, the Group had tax loss carry forwards for PRC income tax purpose of RMB 149,548,600 of which RMB 13,047, RMB 5,402,038, RMB 12,267,519, RMB 7,805,681, RMB 10,761,200, RMB 24,885,643, RMB 14,047,874, RMB 42,423,438 and RMB 31,942,160 will expire if unused by December 31, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029 and 2030, respectively.

For the year ended December 31, 2018, 2019 and 2020, the Group had no unrecognized tax benefits, and thus no related interest and penalties were recorded. Also, the Group does not expect that the amount of unrecognized tax benefits will significantly increase within the next twelve months.

According to the PRC Tax Administration and Collection Law, the statute of limitation is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitation is extended to five years under special circumstances where the underpayment of taxes is more than RMB 100,000. In the case of transfer pricing issues, the statute of limitation is ten years. There is no statute of limitation in the case of tax evasion. The income tax return of each of the Company's PRC consolidated entities is subject to examination by the relevant tax authorities for the calendar tax years beginning 2016.

## (15) NON-CONTROLLING INTERESTS

### (a) Redeemable non-controlling interests

In February 2017, two third-party investors (“the investors”) acquired 20% of the equity interest of Muhua Shangce at a consideration of RMB 34,000,000. The investors have the right to ask Muhua Shangce to purchase back part or all of the equity interest if Muhua Shangce does not achieve a qualified IPO within 6 years, as defined by the investment agreement, at the redemption price of RMB 34,000,000 plus 8% of interest for the period from February 2017 to the date of redemption. The redeemable non-controlling interest was recorded outside permanent equity as mezzanine equity- redeemable non-controlling interests in the consolidated balance sheets and initially recorded at the carrying value of RMB 34,000,000. The amount presented in redeemable non-controlling interest should be the greater of the non-controlling interest balance after attribution of net income or loss of the subsidiary and related dividends to the non-controlling interest or the amount of redemption value.

On September 26, 2019, Muhua Shangce entered into a new financing agreement with its redeemable non-controlling interests holder, Muhua Investment, and received cash of RMB 5,000,000 on September 29, 2019. After Muhua Shangce’s new financing, ACG’s equity shares decreased from 56% to 54.6% and ACG still has control of Muhua Shangce.

The investor who made this new investment, has the right to ask Muhua Shangce to purchase back up to 50% of the new equity interests if Muhua Shangce does not achieve a qualified IPO within 5 years, as defined by the investment agreement, at the redemption price of RMB 2,500,000 plus 8% of interest for the period from September 2019 to the date of redemption. The redeemable non-controlling interest was recorded outside permanent equity as mezzanine equity- redeemable non-controlling interests in the consolidated balance sheets and initially recorded at the carrying value of RMB 2,500,000. The amount presented in redeemable non-controlling interest should be the greater of the non-controlling interest balance after attribution of net income or loss of the subsidiary and related dividends to the non-controlling interest or the amount of redemption value.

	RMB
<b>Balance as of December 31, 2017</b>	36,304,276
Less: Comprehensive loss	(3,181,199)
Accretion of redeemable non-controlling interests	6,085,542
<b>Balance as of December 31, 2018</b>	<b>39,208,619</b>
Add: Capital contribution	2,500,000
Less: Comprehensive loss	(2,820,682)
Accretion of redeemable non-controlling interests	6,008,491
<b>Balance as of December 31, 2019</b>	<b>44,896,428</b>
Less: Comprehensive loss	(2,582,632)
Accretion of redeemable non-controlling interests	6,184,572
<b>Balance as of December 31, 2020</b>	<b>48,498,368</b>

### (b) Non-redeemable non-controlling interests

On October 26, 2018, Board of Directors approved that 24% of the equity shares of Muhua Shangce was transferred to a limited partnership named Ningbo Meishan Bonded Port Area Zunming Investment Management Center (Limited Partnership) (“Limited Partnership”) from ATA Education at a consideration of RMB 1,500,000. The consideration has been fully paid to ATA Education by the Limited Partnership on December 26, 2018.

As a result of the new investment made in 2019 to Muhua Shangce as stated above, 50% of the new investment, amounting to RMB 2,500,000, which does not represent redeemable non-controlling interests, was recorded under non-redeemable non-controlling interests.

## (16) SEGMENT INFORMATION

The Group’s chief operating decision maker has been identified as the Chief Executive Officer who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. The Group uses the management approach to determine the operating segments. The management approach considers the internal organization and reporting used by the Group’s chief operating decision maker for making decisions, allocating resources and assessing the performance. There are no inter-segment revenue transactions and, therefore, revenues are only generated from external customers. The accounting policies of the segments are the same as those used by the Group.



Prior to the Huanquiyimeng Acquisition on August 6, 2019, the Group's operations were organized into one operating segment. As a result of the Huanquiyimeng Acquisition as described in Note 1, the Group classified the operating segments for the year ended December 31, 2019 into (i) Overseas art study services (ii) Other educational services and (iii) K-12 education assessment and other services. The Group had one operating segment which was K-12 education assessment and other services for the year ended December 31, 2018.

Overseas art study services has been identified as one reportable segment. Other educational services and K-12 education assessment and other services are aggregated as others because revenue from reportable segment of Overseas art study services exceeds 75 percent of the total consolidated net revenues and management determines that no further reportable segments need to be identified and disclosed.

Furthermore, the Group's chief operating decision maker evaluates performance based on each reporting segment's net revenue, operating cost and expenses, and income (loss) from operations. There are no separate segment assets and segment liabilities information provided to the Group's Chief Executive Officer, as he does not use this information to allocate resources or evaluate the performance of the segments.

The following table presents selected financial information relating to the Group's segments:

For the year ended December 31, 2020:	Overseas art study services	Others	Consolidated
	RMB	RMB	RMB
Net revenues	138,703,946	23,463,601	162,167,547
Operating cost and expenses:			
Cost of revenues	83,972,820	14,548,207	98,521,027
Research and development	1,834,597	6,997,891	8,832,488
Selling and marketing	49,804,055	3,695,996	53,500,051
Unallocated corporate expenses*	—	—	100,097,849
Impairment loss of intangible assets and other non-current assets	—	3,120,425	3,120,425
Provision for loan receivable and other receivables	—	5,904,305	5,904,305
<b>Total operating cost and expenses</b>	<b>135,611,472</b>	<b>34,266,824</b>	<b>269,976,145</b>
Other operating income, net	167,016	163,208	330,224
<b>Income (Loss) from continuing operations</b>	<b>3,259,490</b>	<b>(10,640,015)</b>	<b>(107,478,374)</b>
For the year ended December 31, 2019:	Overseas art study services	Others	Consolidated
	RMB	RMB	RMB
Net revenues	82,376,727	15,393,440	97,770,167
Operating cost and expenses:			
Cost of revenues	50,365,985	11,548,517	61,914,502
Research and development	—	11,817,255	11,817,255
Selling and marketing	27,859,200	6,253,012	34,112,212
Unallocated corporate expenses*	—	—	81,923,516
Impairment loss of intangible assets and other non-current assets	—	8,932,439	8,932,439
Provision for loan receivable and other receivables	—	17,430,825	17,430,825
<b>Total operating cost and expenses</b>	<b>78,225,185</b>	<b>55,982,048</b>	<b>216,130,749</b>
Other operating income, net	—	588,147	588,147
<b>Income (Loss) from continuing operations</b>	<b>4,151,542</b>	<b>(40,000,461)</b>	<b>(117,772,435)</b>
For the year ended December 31, 2018:		Others	Consolidated
		RMB	RMB
Net revenues		1,338,592	1,338,592
Operating cost and expenses:			
Cost of revenues		4,251,451	4,251,451
Research and development		19,594,484	19,594,484
Selling and marketing		5,570,169	5,570,169
General and administrative		43,507,856	43,507,856
<b>Total operating cost and expenses</b>		<b>72,923,960</b>	<b>72,923,960</b>
Other operating income, net		3,793,418	3,793,418
<b>Loss from continuing operations</b>		<b>(67,791,950)</b>	<b>(67,791,950)</b>

\*Unallocated corporate expenses represent the general and administrative expenses for the years ended December 31, 2019 and 2020.

Majority of the Group's operations, customers and long-lived assets are located in the PRC. Consequently, no geographic information is presented.

## (17) SHARE-BASED COMPENSATION

### 2005 Share incentive plan

In April 2005, the Company adopted a share incentive plan (the "2005 Plan"), pursuant to which the Company is authorized to issue options to officers, employees, directors and consultants of the Group to purchase up to 2,894,000 of its common shares. In October 2007, the Company's board of directors approved an increase in the number of shares reserved for issuance under the 2005 Plan to 3,310,300 shares. The 2005 Plan expired in April 2015. Options awards provide for accelerated vesting if there is a change in control (as defined in the 2005 Plan).

### 2008 Share incentive plan

On January 7, 2008, the Company adopted a share incentive plan (the "2008 Plan"), pursuant to which the Company is authorized to issue options and other share-based awards to officers, employees, directors and consultants of the Group to purchase up to 336,307 of its common shares, plus, unless the board of directors determines a lesser amount, an annual increase on January 1 of each calendar year beginning in 2009 equal to the lesser of 1) one percent of the number of shares issued and outstanding on December 31 of the immediately preceding calendar year, and 2) 336,307 shares (the "replenish terms"). The 2008 Plan expires in ten years. Options awards provide for accelerated vesting if there is a change in control (as defined in the 2008 Plan). On December 30, 2016, the Company amended the 2008 Plan to increase the number of Common Shares of the Company reserved for issuance to 5,726,763 shares and extend the plan together with the replenish terms for ten years from December 30, 2016 (the "Amendment and Restatement of 2008 Plan"). On October 26, 2018, the Company amended and restated the Amendment and Restatement of 2008 Plan to increase the number of Common Shares the Company reserved for issuance to 6,965,846 shares, extend its terms to last till October 25, 2028 and change the number of common shares automatically added to the option pool on each calendar year during its term to an amount equal to the lesser of (i) one percent of the total number of common shares issued and outstanding on December 31 of the immediately preceding calendar year, or (ii) such number of common shares as may be established by the board of directors (the "Second Amendment and Restatement of 2008 Plan"). As of December 31, 2020, 8,047,386 shares were reserved for issuance under the Second Amendment and Restatement of 2008 Plan.

Under both the 2005 Plan and 2008 Plan (including the original and both versions of the Amendment and Restatement), share options are generally granted with 25% vesting on the first anniversary of the grant date and the remaining 75% vesting ratably over the following 36 months, unless a shorter or longer duration is established at the time of the option grant. Share options are granted at an exercise price equal to or as an average over a certain number of trading days of the fair market value of the Company's share at the date of grant and expire 10 years from the grant date, unless a shorter or longer expiration period is specified.

Under the 2008 Plan (including the original and both versions of the Amendment and Restatement), non-vested shares are generally granted with a graded vesting as to 25% at the end of each year from the grant date over 4 years, or with certain percentage vesting on the grant date or first anniversary of the grant date and the remaining portion vesting ratably over the following 36 months, unless a shorter or longer duration is established at the time of the grant.

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

In January 2017, 2,700,000 non-vested shares were granted to employees and officers with a graded vesting as to 25% at the end of each year from the grant date over 4 years and 900,000 share options were granted to Company's employees and officers, 25% of the options vest on the first anniversary of the grant date with the remaining 75% vesting evenly over the following 36 months. The exercise price of these options is USD 1.705 per common share.

In August 2017, 50,000 share options were granted to an employee, 25% of the options vest on the first anniversary of the grant date with the remaining 75% vesting evenly over the following 36 months. The exercise price of these options is USD 2.35 per common share.

In July 2018, 129,168 share options and 1,262,250 non-vested shares were cancelled in connection with the ATA Online Sale Transaction. RMB 6,753,771 compensation costs were accelerated and recognized for the year ended December 31, 2018.

In November 2018, 1,772,584 share options, including 1,215,114 vested share options and 557,470 non-vested share options were cancelled in accordance with the board of directors resolutions. RMB 877,321 of compensation costs were accelerated and recognized for the year ended December 31, 2018.

In November 2018, 1,452,600 share options were issued to certain employees and officers with 4 years' service condition and annual performance targets for the year 2018, 2019, 2020 and 2021, among which 363,150 share options were granted in November 2018 and the remaining portion will be granted when the employee knows the specific performance target. As the performance condition for the year 2018 was not achieved, no compensation cost was recognized for these share options. In addition, 690,000 share options were granted to employees and officers, with 25% vesting on the first anniversary of the grant date and the remaining 75% vesting ratably over the following 36 months. The exercise price of these options is USD 0.578 per common share. In addition, 800,000 non-vested shares were granted to directors, with 25% vesting on the first anniversary of the grant date and the remaining 75% vesting ratably over the following 36 months.

In December 2018, 1,772,584 shares were granted to employees and officers, among which 1,412,336 shares vested immediately on the grant date and the remaining shares vested for a period from January 1, 2019 to September 1, 2021.

In January and March 2019, 50,000 share options and 20,000 share options were granted to employees and officers, with 25% vesting on the first anniversary of the grant date and the remaining 75% vesting ratably over the following 36 months. The exercise prices of these two tranches options are USD 0.4868 and USD 0.532 per common share respectively.

In 2019, 1,698,790 share options were issued to certain officer with service condition and specific performance target among which 424,698 share options (the "First Tranche") were granted on March 25, 2020 and the remaining portion will be granted when the specific performance target is established and there is mutual understanding of the terms of the award. The First Tranche will be vested on April 1, 2021 or the following anniversaries of April 1, 2021 until the same performance target can be achieved. The Company estimates the requisite service period is from March 25, 2020 to December 31, 2022, which is when the performance target is considered probable to be met.

A summary of the share options activities for years ended December 31, 2018, 2019 and 2020:

	Number of shares	Weighted average exercise USD	Weighted remaining contractual years	Aggregate Intrinsic Value USD
<b>Outstanding as of December 31, 2017</b>	<b>2,377,067</b>	<b>2.18</b>		
Granted	1,053,150	0.58		
Exercised	(119,792)	1.77		
Forfeited	(123,438)	1.71		
Cancelled	(1,901,752)	2.13		
Expired	(143,023)	3.89		
<b>Outstanding as of December 31, 2018</b>	<b>1,142,212</b>	<b>0.67</b>		
Granted	70,000	0.50		
Exercised	—	—		
Forfeited	(809,712)	0.61		
Cancelled	—	—		
Expired	—	—		
<b>Outstanding as of December 31, 2019</b>	<b>402,500</b>	<b>0.75</b>		
Granted	424,698	1.26		
Exercised	—	—		
Forfeited	—	—		
Cancelled	—	—		
Expired	—	—		
<b>Outstanding as of December 31, 2020</b>	<b>827,198</b>	<b>1.01</b>		
Vested and expected to vest as of December 31, 2020	827,198	1.01	8.11	6,700
Exercisable as of December 31, 2020	235,832	0.87	7.40	3,385

The aggregate intrinsic value of options outstanding and exercisable at December 31, 2020, was determined based on the closing price of the Company's common shares on December 31, 2020.

Information relating to options outstanding and exercisable as of December 31, 2020 is as follows:

Options outstanding as of December 31, 2020			Options exercisable as of December 31, 2020		
Number of Shares	Exercise Price per Share USD	Remaining Contractual Life Years	Number of Shares	Exercise Price per Share USD	Remaining Contractual Life Years
62,500	1.71	6.05	60,416	1.71	6.05
320,000	0.58	7.85	166,666	0.58	7.85
20,000	0.53	8.21	8,750	0.53	8.21
424,698	1.26	8.60	—	—	—
<b>827,198</b>	<b>1.01</b>	<b>8.11</b>	<b>235,832</b>	<b>0.87</b>	<b>7.40</b>

The Company calculated the fair value of the share options on the grant date, for the years ended December 31, 2018, 2019 and 2020, using the Black-Scholes-Merton pricing valuation model. The assumptions used in the valuation model are summarized as follows:

	Year Ended December 31,		
	2018	2019	2020
Expected dividend yield	0%	0%	0%
Expected volatility	57%	55%/54%	57%
Expected term	5.11/6.11	6.08	6.04
Risk-free interest rate (per annum)	3.05%/3.10%	2.53%/2.45%	0.67%

The expected volatility was based on the historical volatilities of the Company. The expected term was related to the period of time the options are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the United States treasury yield curve in effect at the time of grant.

Compensation expense recognized for non-vested share options for the year ended December 31, 2018, 2019 and 2020 is allocated to the following expense items:

	Year Ended December 31,		
	2018 RMB	2019 RMB	2020 RMB
Research and development	157,355	68,016	—
Sales and marketing	70,915	—	—
General and administrative	2,024,940	345,991	316,815
<b>Total share-based compensation expense</b>	<b>2,253,210</b>	<b>414,007</b>	<b>316,815</b>

As of December 31, 2020, RMB 369,568 of total unrecognized compensation expense related to non-vested share options is expected to be recognized over a weighted average period of approximately 1.98 years.

### Non-vested shares

A summary of the non-vested shares activities for the year ended December 31, 2018, 2019 and 2020 is presented below:

	Number of shares	Weighted average grant date fair value USD
<b>Outstanding at December 31, 2017</b>	<b>2,625,000</b>	<b>1.650</b>
Granted	2,572,584	0.537
Vested	(2,068,586)	0.872
Forfeited	(71,250)	1.650
Cancelled	(1,262,250)	1.650
<b>Outstanding at December 31, 2018</b>	<b>1,795,498</b>	<b>0.951</b>
Granted	—	—
Vested	(693,362)	0.885
Forfeited	—	—
Cancelled	—	—
<b>Outstanding at December 31, 2019</b>	<b>1,102,136</b>	<b>0.933</b>
Granted	—	—
Vested	(484,678)	1.043
Forfeited	(14,370)	0.907
Cancelled	—	—
<b>Outstanding at December 31, 2020</b>	<b>603,088</b>	<b>0.955</b>

The total fair value of shares vested during the years ended December 31, 2018, 2019 and 2020 was USD 2,591,875, USD 461,309 and USD 318,038 respectively.

Upon vesting of the non-vested shares, the Company withholds shares issued to the employees to meet the relevant minimum tax withholding requirements. For the years ended December 31, 2018, 2019 and 2020, the Company withheld 93,496, 28,456 and 12,292 vested shares upon vesting of the non-vested shares to satisfy the minimum tax withholding obligation. Compensation expense recognized for non-vested shares for the years ended December 31, 2018, 2019 and 2020 is allocated to the following expense items:

	Year Ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Research and development	240,441	367,313	74,861
Sales and marketing	96,058	—	—
General and administrative	7,119,658	4,028,134	1,385,107
<b>Total share-based compensation expense</b>	<b>7,456,157</b>	<b>4,395,447</b>	<b>1,459,968</b>

As of December 31, 2020, RMB 488,189 of total unrecognized compensation expense related to non-vested shares is expected to be recognized over a weighted average period of approximately 1.72 years.

### (18) COMMON SHARES

On December 18, 2019, the Company entered into a subscription agreement with CL-TCC, a company focusing on investments in culture and education industry, in connection with a private placement for the Company's common shares. ACG completed this private placement with CL-TCC on December 24, 2019, under which it issued 5,662,634 common shares of the Company for gross proceeds of approximately \$10.0 million. As of December 31, 2019, ACG has received cash consideration of \$8.8 million (RMB 61.7 million) in accordance with the payment terms of the subscription agreement. The rest of the proceeds of \$1.2 million (RMB 8.5 million) was received on April 10, 2020.

In May 2020, ACG's Board of Directors approved a share repurchase plan authorizing the Company to repurchase up to US\$1.0 million of its issued and outstanding ADSs from the open market and through privately negotiated transactions, effective through December 31, 2020. By December 31, 2020, the Company had repurchased 450,337 ADSs at an average stock price of US\$1.2631 for a total cash consideration of \$0.6 million (RMB 4.0 million). This share repurchase plan expired on December 31, 2020. The Company has cumulatively used 749,253 ADSs purchased from the open market for settlement of vested share options and restricted shares vesting as of December 31, 2020.

**(19) CASH DIVIDENDS**

On August 7, 2018, the Company's board of directors declared a special cash dividend of USD 3.00 per common share, or USD 6.00 per ADS, subject to the completion of the ATA Online Sale Transaction. The total amount of dividend was approximately RMB 946.6 million and was paid in cash on August 24, 2018 in connection with the final closing of the Transaction.

**(20) STATUTORY RESERVES**

In accordance with the relevant laws and regulations of the PRC, the Company's PRC consolidated entities are required to transfer 10% of their respective after-tax profit, as determined in accordance with PRC accounting standards and regulations to a general reserve fund until the balance of the fund reaches 50% of the registered capital of the respective entity. The transfer to this general reserve fund must be made before any distribution of dividends. As of December 31, 2019 and 2020, the PRC consolidated entities had accumulated statutory reserve balances of RMB 25,671,341 and RMB 25,698,704, respectively, which is restricted for distribution to the Company.

**(21) RELATED PARTY TRANSACTIONS**

***Purchase of Online Education Platform Services from an Affiliate Company***

The Company has subscribed services of online educational platform provided by an affiliate company, EEO Empower Education Online Co., Ltd. ("EEO"), to support its online delivery of credit hours and other relevant services from January to June 2020. Cost of revenues in the amount of RMB 115,968 was recognized for the services purchased during the period.

***Amounts Due to a Related Party***

The CEO, director and shareholder of the Group, Mr. Xiaofeng Ma has offered interest-free personal funding support of RMB 431,000 and RMB 200,000 to Muhua Shangce, the majority owned subsidiary of the Group, on March 5 and March 30, 2020 respectively, to support its operational cash needs during COVID-19, which became due in September 2020 and was extended for one year to September 2021. As of December 31, 2020, the outstanding balance was RMB 631,000.

***Joint Liability Guarantee provided by a Related Party***

Muhua Shangce has borrowed RMB 3.0 million from a third-party company at an annual interest rate of 4.35% in April 2020, for which the Group's CEO and Director, Mr. Xiaofeng Ma, has provided a joint liability guarantee.

***Amounts Due to a Company Controlled by a Related Party***

In November 2020, a partnership controlled by the Group's CEO and Director, Mr. Xiaofeng Ma provided a ten-month interest-free loan of RMB 500,000 to Muhua Shangce. As of December 31, 2020, the outstanding balance was RMB 500,000.

***Expenses paid to a Related Company on Behalf of Huanqiuyimeng***

From January 1, 2020 to May 14, 2020, before Shanghai Aixue Culture Communication Co., Ltd. ("Shanghai Aixue") became a wholly owned subsidiary of the Company, Huanqiuyimeng prepaid RMB 672,254 to Shanghai Aixue, a company previously owned by president Mr. Jun Zhang and one of the employees, and Shanghai Aixue paid a total amount of RMB 483,902 of Huanqiuyimeng's operating expenses on behalf of Huanqiuyimeng.

From the Acquisition Date to December 31, 2019, Huanqiuyimeng prepaid RMB 1,038,494 to Shanghai Aixue, and Shanghai Aixue paid a total amount of RMB 1,037,126 of Huanqiuyimeng's operating expenses on behalf of Huanqiuyimeng. As of December 31, 2019, the outstanding balance was RMB 1,368 due from Shanghai Aixue, which is unsecured, interest free and repayable on demand.

### ***Loan Facility***

In June 2018, the prior president and director of ATA Creativity Global, Jack Huang, entered into a three-year Commercial Loan Facility (the “Facility”) with China Minsheng Bank Beijing Branch to borrow up to RMB 15,000,000 to support the working capital of ATA Education. The Facility is pledged by the real estate property of Gongyuan 16th floor owned by ATA Education, pursuant to which a corresponding three-year pledge agreement has been entered into between ATA Education and China Minsheng Bank Beijing Branch. Jack Huang and ATA Education also signed an agreement, pursuant to which all drawdowns received from China Minsheng Bank should be transferred to ATA Education and the interests of these drawdowns will be fully paid by ATA Education. ATA Education shall pay interest at 6.525% per annum on the commencement date for each drawdown. The interest rate is subject to potential adjustment based on premium interest rate stipulated by the People’s Bank of China. In June and July 2018, ATA Education has received a total of RMB 15,000,000 drawdowns and this loan has been fully paid back on October 15, 2018. The interest expenses incurred and paid by ATA Education for the year ended December 31, 2018 was RMB 249,683. On April 12, 2019, the real estate property of Gongyuan 16th floor was released from pledge and the Facility was terminated correspondingly.

### ***Disposal of ATA Online to entities controlled by Management***

On August 16, 2018, ACG completed the ATA Online Sale Transaction, among which, 67.5% of the equity interest of ATA Online was transferred to the entity controlled by ACG’s Chairman and Chief Executive Officer Mr. Xiaofeng Ma and the companies controlled by certain management members of ATA Online. See note 1 and note 25.

## **(22) COMMITMENTS AND CONTINGENCIES**

### ***Payment under Non-cancelable Agreement***

On April 27, 2017, the Group entered into a five-year agreement with Tsinghua University, under which ACG will support the research of the Research Institute of Future Education and Assessment at Tsinghua University under certain circumstances with funding support of RMB 50.0 million, out of which RMB 40.0 million have been paid and RMB 10.0 million will be paid in 2021.

### ***Legal Proceedings***

In March 2020, two of the Company’s shareholders, Alpha Advantage Global Limited (“Alpha”) and Dynamic Fame Limited (“Dynamic”) filed separate lawsuits with the Beijing Intermediate Court against the Company and Mr. Xiaofeng Ma, the chairman and chief executive officer of the Company relating to ATA Online Sale Transaction. The lawsuits claimed that the board of the directors of the Company did not have the right to approve ATA Online Sale Transaction, because the approval by unrelated shareholders was required, and that the ATA Online Business was worth more than the total consideration of US\$200.0 million. As a result, the sale has resulted in loss to the plaintiffs.

The plaintiffs requested the overturn of all board resolutions of the Company regarding ATA Online Sale Transaction, Mr. Xiaofeng Ma to compensate RMB 95.0 million and RMB 5.0 million, respectively for the loss incurred by Alpha and Dynamic as a result of ATA Online Sale Transaction, and the Company and Mr. Xiaofeng Ma jointly bear the attorney’s fees of RMB 1.5 million and RMB 0.5 million respectively for Alpha and Dynamic, and other litigation costs incurred. The Company filed an application for jurisdiction objection for each of the foregoing two cases, which was not supported. As a result, these two cases will be heard by the Beijing Intermediate Court.

In addition, Alpha and Dynamic jointly filed a lawsuit with Ningbo Intermediate Court against Mr. Xiaofeng Ma, certain entities controlled by management members of ATA Online which were members of the buyer group, New Beauty Holdings Limited, a director of the Company, ChineseAll Digital Publishing Group Co., Ltd. and ATA Learning in connection with ATA Online Sale Transaction, and listed the Company and ATA Online as interested third parties. The plaintiffs requested the overturn of all related party transactions between the defendants and the Company relating to ATA Online Sale Transaction, and Mr. Xiaofeng Ma, the entities controlled by management members of ATA Online and ChineseAll Digital Publishing Group Co., Ltd. to return the equity interest of ATA Online and ATA Learning they acquired to ATA Learning and ATA BVI, as the case may be, and all defendants and the Company to jointly bear the attorney’s fees of the plaintiffs in the amount of RMB 15.0 million and other litigation cost. The case was transferred by the Ningbo Intermediate Court to the Beijing Intermediate Court for further proceeding. As of the date of statement, this case has not yet been heard.

While it is premature at this stage of the litigations to evaluate the likelihood of favorable or unfavorable outcomes and the Company believes that the plaintiffs’ claims are without any merits in their claims, the Company is actively preparing for the foregoing suits and shall defend itself against those allegations vigorously. In accordance with ASC Topic 450, no accrual of loss contingency was accrued as of December 31, 2020 since it is not probable that a liability has incurred and the amount of loss cannot be reasonably estimated.

**(23) OPERATING LEASES**

The Group generates rental income by leasing its own properties. Rental income under operating lease is recognized on a straight-line basis over the term of the lease, including any periods of free rent, and is classified as “other operating income, net” after netting off relevant costs.

**Property on Operating Lease**

	December 31, 2019	December 31, 2020
	RMB	RMB
Building	53,049,213	53,049,213
Less: Accumulated depreciation	(18,714,584)	(20,497,038)
	<b>34,334,629</b>	<b>32,552,175</b>

Since there are no substantive rental contracts outstanding as of December 31, 2020, future minimum rental income under non-cancelable operating lease as of December 31, 2020 is immaterial.

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

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

	Year ended December 31,		
	2018	2019	2020
	RMB	RMB	RMB
Numerator:			
Net earnings (loss) attributable to ATA Creativity Global	854,925,914	(122,253,989)	(92,198,032)
Dividends paid to participating securities	(13,249,006)	—	—
Redeemable non-controlling interest redemption value accretion	(6,085,542)	(6,008,491)	(6,184,572)
Net earnings (loss) available to common shareholders	835,591,366	(128,262,480)	(98,382,604)
Denominator:			
Denominator for basic earnings (loss) per share:			
Weighted average common shares outstanding	45,796,886	50,915,710	62,660,037
Denominator for diluted earnings (loss) per share	45,796,886	50,915,710	62,660,037
Basic loss per common share from continuing operations	(1.81)	(2.62)	(1.57)
Diluted loss per common share from continuing operations	(1.81)	(2.62)	(1.57)
Basic earnings per common share from discontinued operations	20.06	0.10	—
Diluted earnings per common share from discontinued operations	20.06	0.10	—
Basic earnings (loss) per common share attributable to ATA Creativity Global	18.25	(2.52)	(1.57)
Diluted earnings (loss) per common share attributable to ATA Creativity Global	18.25	(2.52)	(1.57)

The following table summarizes potential common shares outstanding excluded from the calculation of diluted earnings (loss) per share for the year ended December 31, 2018, 2019 and 2020, because their effect is anti-dilutive:

	Year ended December 31,		
	2018	2019	2020
Shares issuable under share options	1,142,212	402,500	827,198



## (25) DISCONTINUED OPERATIONS

On August 16, 2018, ACG completed the ATA Online Sale Transaction, among which, 17.5% of the equity interest of ATA Online was transferred directly and indirectly to two entities affiliated with funds managed by CDH Investments, a major Chinese alternative asset management firm based in Beijing (the “CDH Entities”), for a consideration of USD 35.0 million, 16.5% of the equity interest of ATA Online was transferred to three holding companies controlled by certain management members of ATA Online (the “Management Entities”), for a consideration of USD 33.0 million, 15% of the equity interest of ATA Online was transferred to Zhuhai Lihonghuaying Equity Investment Partnership (Limited Partnership), a China-based entity principally engaged in private equity investments, or the LHHY Entity, for a consideration of USD 30.0 million, and 51% of the equity interest of ATA Online was transferred indirectly to New Beauty Holdings Limited, a company controlled by Mr. Xiaofeng Ma, for a consideration of USD 102.0 million.

Upon the final closing of the ATA Online Sale Transaction, a special cash dividend of approximately RMB 946.6 million was distributed on August 24, 2018.

Due to the closing of the Transaction, balance sheet items related to the disposed business lines will no longer be consolidated into ACG’s financial statements since the completion date of the Transaction. For the periods presented, the results of discontinued operations, less applicable income taxes are reported as two separate components of income (loss) on the consolidated statements of comprehensive income (loss) as applicable: 1) Income (loss) from operations of discontinued operations, net of income taxes, and 2) gain from disposal of discontinued operations, net of income taxes.

The major classes of line items constituting operating results of discontinued operations included in the Company’s consolidated statements of comprehensive income (loss) were as follows for the years ended December 31, 2018 and 2019. The gain from disposal of discontinued operations, net of income taxes, recorded for the year ended December 31, 2019, was to account for the reimbursement of legal and consulting expenses from the buyer in relation to the sale of ATA Online business.

Revenues generated from ATA Online Business, which primarily include testing services and online education services have been classified and reported under discontinued operations for all the periods presented.

	Year ended December 31,	
	2018	2019
	RMB	RMB
Net revenues	194,939,146	—
Cost of revenues	116,432,436	—
Operating expenses	104,587,110	—
Other income	6,929,814	—
<b>Loss from operations of discontinued operations, before income taxes</b>	<b>(19,150,586)</b>	<b>—</b>
Income tax benefit	(199,617)	—
<b>Loss from operations of discontinued operations, net of income taxes</b>	<b>(18,950,969)</b>	<b>—</b>
Gain from disposal of discontinued operations, net of income taxes	937,605,948	4,894,197
<b>Income from discontinued operations, net of income taxes</b>	<b>918,654,979</b>	<b>4,894,197</b>
Net loss attributable to non-redeemable non-controlling interests from discontinued operations	(10,608)	—
<b>Net Income from discontinued operations attributable to ATA Creativity Global</b>	<b>918,665,587</b>	<b>4,894,197</b>

The condensed cash flows of the discontinued operations were as follows for the years ended December 31, 2018 and 2019.

	Year ended December 31,	
	2018	2019
	RMB	RMB
Net cash provided by (used in) operating activities	(25,108,520 )	4,894,197
Net cash used in investing activities	(8,666,299 )	—
Net cash used in financing activities	(21,098,633 )	—

(26) ATA CREATIVITY GLOBAL (“PARENT COMPANY”)

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

*Condensed Balance Sheets*

	December 31, 2019	December 31, 2020	December 31, 2020
	RMB	RMB	USD
Cash and cash equivalents	77,996,136	2,486,636	381,094
Prepaid expenses and other current assets	13,154	3,983	610
Subscription receivable	8,530,931	—	—
Loan receivable, net	4,126,502	—	—
Investments in subsidiaries	213,391,690	198,028,805	30,349,242
<b>Total assets</b>	<b>304,058,413</b>	<b>200,519,424</b>	<b>30,730,946</b>
Accrued expenses and other payables	3,918,340	2,114,561	324,071
<b>Total liabilities</b>	<b>3,918,340</b>	<b>2,114,561</b>	<b>324,071</b>
Common shares	4,692,312	4,716,675	722,862
Treasury shares	(27,737,073)	(11,625,924)	(1,781,751)
Additional paid in capital	560,814,066	541,272,503	82,953,640
Accumulated other comprehensive loss	(37,478,167)	(37,424,722)	(5,735,590)
Accumulated deficit	(200,151,065)	(298,533,669)	(45,752,286)
<b>Total shareholders' equity</b>	<b>300,140,073</b>	<b>198,404,863</b>	<b>30,406,875</b>
<b>Total liabilities and shareholders' equity</b>	<b>304,058,413</b>	<b>200,519,424</b>	<b>30,730,946</b>

*Condensed Statements of Comprehensive Income (Loss)*

	Year ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	USD
Operating expenses	(4,963,891)	(6,928,823)	(10,748,782)	(1,647,323)
Provision for loan receivable	—	(11,843,167)	(3,943,902)	(604,429)
Investment income (loss)	852,782,280	(110,881,674)	(83,753,528)	(12,835,790)
Interest expense	(446)	—	—	—
Interest income	1,306,567	1,391,183	63,613	9,749
Foreign currency exchange gains (losses), net	(284,138)	1	(5)	(1)
<b>Income (loss) before income taxes</b>	<b>848,840,372</b>	<b>(128,262,480)</b>	<b>(98,382,604)</b>	<b>(15,077,794)</b>
Income tax expense	—	—	—	—
<b>Net income (loss)</b>	<b>848,840,372</b>	<b>(128,262,480)</b>	<b>(98,382,604)</b>	<b>(15,077,794)</b>
Other comprehensive income (loss)	(11,437,409)	810,197	53,445	8,191
<b>Comprehensive income (loss)</b>	<b>837,402,963</b>	<b>(127,452,283)</b>	<b>(98,329,159)</b>	<b>(15,069,603)</b>

*Condensed Statements of Cash Flows*

	Year ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	USD
<b>Net cash used in operating activities</b>	<b>(29,996,291)</b>	<b>(4,797,830)</b>	<b>(10,150,979)</b>	<b>(1,555,706)</b>
<b>Cash flows from investing activities:</b>				
Cash received from subsidiaries	1,001,941,215	—	3,804,240	583,025
Loan lent to Beijing Biztour	(13,745,856)	—	—	—
Cash lent to subsidiaries	—	—	(72,794,230)	(11,156,204)
Proceeds from disposal of discontinued operations	—	4,894,197	—	—
<b>Net cash provided by (used in) investing activities</b>	<b>988,195,359</b>	<b>4,894,197</b>	<b>(68,989,990)</b>	<b>(10,573,179)</b>
<b>Cash flows from financing activities:</b>				
Private placement	—	61,693,192	8,530,931	1,307,422
Repurchase of treasury shares	—	—	(4,003,530)	(613,568)
Cash received for exercise of share options	1,433,441	—	—	—
Special cash dividend	(946,611,803)	—	—	—
<b>Net cash provided by (used in) financing activities</b>	<b>(945,178,362)</b>	<b>61,693,192</b>	<b>4,527,401</b>	<b>693,854</b>
<b>Effect of foreign exchange rate changes on cash</b>	<b>568,046</b>	<b>810,196</b>	<b>(895,932)</b>	<b>(137,306)</b>
Net increase(decrease) in cash	13,588,752	62,599,755	(75,509,500)	(11,572,337)
Cash and cash equivalents at beginning of year	1,807,629	15,396,381	77,996,136	11,953,431
Cash and cash equivalents at end of year	<b>15,396,381</b>	<b>77,996,136</b>	<b>2,486,636</b>	<b>381,094</b>

**DESCRIPTION OF SECURITIES  
REGISTERED UNDER SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

The American Depositary Shares (“ADSs”), each representing two common shares of ATA Creativity Global (“we,” “our,” the “Company,” or “us”), are registered under Section 12(b) of the Securities Exchange Act of 1934, as amended, and are listed and traded on the Nasdaq Global Market. This exhibit contains a description of the rights of (i) the holders of our common shares and (ii) the holders of our ADSs. Our common shares underlying the ADSs are held by Citibank, N.A., as depositary, and holders of our ADSs are not treated as holders of our common shares.

**General**

Our authorized share capital is US\$5,000,000, divided into 500,000,000 common shares, par value US\$0.01 per share. Our common shares may be certificated or uncertificated, and ownership is not recognized until registered in our Register of Members. No shares shall be issued as bearer securities. Our common shares are not available to the market; rather, our ADSs are traded on the Nasdaq Global Market.

We are an exempted company limited by shares, with limited liability incorporated under the Companies Act (as amended) of the Cayman Islands (the “Companies Act”), on September 22, 2006. Our shareholders who are non-residents of the Cayman Islands may freely hold and vote their common shares. A Cayman Islands exempted company:

- is a company that conducts its business outside the Cayman Islands;
- is exempted from certain requirements of the Companies Act, including the filing of an annual return of its shareholders with the Registrar of Companies and holding an annual general meeting;
- does not have to make its register of members open to inspection;
- may obtain an undertaking against the imposition of any future taxation; and
- may issue shares with no par value shares.

Our affairs are governed by our fourth amended and restated memorandum and articles of association, as amended (the “Memorandum and Articles of Association”) and the Companies Act. The following summarizes the material terms of our Memorandum and Articles of Association and the Companies Act insofar as they relate to the material terms of our common shares. This summary is not complete, and you should read our Memorandum and Articles of Association, which were filed with the U.S. Securities and Exchange Commission (the “SEC”) and are incorporated by reference as an exhibit to the annual report of which this exhibit is a part.

The following discussion primarily addresses our common shares and the rights of holders of common shares. The holders of our ADSs are not to be treated as our shareholders and will be required to surrender their ADSs for cancellation and withdrawal from the depositary facility in which the common shares are held in order to receive the shares that their ADSs represent, and to exercise shareholders’ rights in respect of the common shares. However, the holders of ADSs generally have the right under the deposit agreement to instruct the depositary bank to exercise the voting rights for the common shares represented by their ADSs. See “Description of American Depositary Shares” below.

**Meetings**

Subject to the company’s regulatory requirements, an annual general meeting and any extraordinary general meeting shall be called by not less than ten clear days’ notice in writing. Notice of every general meeting will be given to all of our shareholders other than those that, under the provisions of our Memorandum and Articles of Association or the terms of issue of the common shares they hold, are not entitled to receive such notices from us, and also to our principal external auditors. Extraordinary general meetings may be called only by the chairman of our board of directors or a majority of our board of directors and may not be called by any other person.

A meeting called by shorter notice than that mentioned above, nevertheless, subject to the Companies Act, will be deemed to have been duly called, if it is so agreed (1) in the case of a meeting called as an annual general meeting by all of our shareholders entitled to attend and vote at the meeting; (2) in the case of any other meeting, by a majority in number of our shareholders having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued common shares giving that right.

All general meetings (including an annual general meeting, any adjourned meeting or postponed meeting) may be held as a physical meeting, a hybrid meeting or an electronic meeting, as may be determined by the person or persons calling the meeting or, in absence of such determination, as may be determined by our board of directors in its absolute discretion. Two shareholders present in person or by proxy that represent not less than one-third in nominal value of our total issued and outstanding voting shares will constitute a quorum. Any shareholder or any proxy attending and participating in an electronic meeting or a hybrid meeting by means of electronic facilities is deemed to be present at and shall be counted in the quorum. No business other than the appointment of a chairman may be transacted at any general meeting unless a quorum is present at the commencement of business. If present, the chairman of our board of directors shall be the chairman presiding at any shareholders meetings.

A corporation being a shareholder shall be deemed for the purpose of our Memorandum and Articles of Association to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting or at any relevant general meeting of any class of our shareholders. Such duly authorized representative shall be entitled to exercise the same powers on behalf of the corporation that he represents as that corporation could exercise if it were our individual shareholder.

The quorum for a separate general meeting of the holders of a separate class of shares is described in “—Modification of Rights” below.

#### **Voting Rights Attaching to the Shares**

Subject to any special rights or restrictions as to voting attached to any shares, in the case of a physical general meeting, on a show of hands every shareholder who is present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative) shall have one vote, and at any general meeting on a poll every shareholder present in person or by proxy (or, in the case of a shareholder being a corporation, by its duly authorized representative) shall have one vote for each fully paid share of which such shareholder is the holder.

Under our Memorandum and Articles of Association, a resolution put to the vote of a meeting other than a physical meeting, shall be decided by way of a poll. A resolution put to the vote of a physical meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Nasdaq Global Market, or a poll is demanded by (i) the chairman of the meeting, (ii) at least three shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy for the time being entitled to vote at the meeting, (iii) any shareholder or shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all shareholders having the right to vote at the meeting, (iv) by a shareholder or shareholders present in person or in the case of a shareholder being a corporation by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at a meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid on all shares conferring that right, or (v) if required by the rules of the Nasdaq Global Market, by any director or directors of the Company who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at such meeting.

No shareholder shall be entitled to vote or be reckoned in a quorum, in respect of any share, unless such shareholder is duly registered as our shareholder at the applicable record date for that meeting and all calls or installments due by such shareholder to us have been paid.

If a recognized clearing house (or its nominee(s)), being a corporation, is our shareholder, it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting or at any meeting of any class of shareholders provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision is entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of our shares held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

#### **Protection of Minority Shareholders**

The Grand Court of the Cayman Islands may, on the application of shareholders holding not less than one-fifth of our shares in issue, appoint an inspector to examine our affairs and to report thereon in a manner as the Grand Court of the Cayman Islands shall direct.

Any shareholder may petition that the Grand Court of the Cayman Islands may make a winding up order, if the court is of the opinion that it is just and equitable that we should be wound up.

Claims against us by our shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our Memorandum and Articles of Association.

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against, or derivative actions in our name to challenge (1) an act which is *ultra vires* or illegal, (2) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of us, and (3) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

#### **Pre-Emption Rights**

There are no pre-emption rights applicable to the issue of new shares under either Cayman Islands law or our Memorandum and Articles of Association.

#### **Liquidation Rights**

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares, (1) if we are wound up and the assets available for distribution among our shareholders are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* among those shareholders in proportion to the amount paid up at the commencement of the winding up on the shares held by them, respectively; and (2) if we are wound up and the assets available for distribution among the shareholders as such are insufficient to repay the whole of the paid-up capital, those assets shall be distributed so that, as nearly as may be, the losses shall be borne by the shareholders in proportion to the capital paid up at the commencement of the winding up on the shares held by them, respectively.

If we are wound up, the liquidator may with the sanction of our special resolution and any other sanction required by the Companies Act, divide among our shareholders in specie or kind the whole or any part of our assets (whether or not they shall consist of properties of the same kind) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided and may determine how such division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may also vest any part of these assets in trustees upon such trusts for the benefit of the shareholders as the liquidator shall think fit, but so that no shareholder will be compelled to accept any shares or other property upon which there is a liability.

#### **Modification of Rights**

Except with respect to share capital (as described below) and the location of the registered office, alterations to our Memorandum and Articles of Association may only be made by special resolution, meaning a majority of not less than two-thirds of votes cast at a shareholders meeting.

Subject to the Companies Act and without prejudice to the provisions relating to share rights in our Memorandum and Articles of Association, all or any of the special rights attached to shares of any class (unless otherwise provided for by the terms of issue of the shares of that class) may be varied, modified or abrogated with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of our Memorandum and Articles of Association relating to general meetings shall apply similarly to every such separate general meeting, but so that the quorum for the purposes of any such separate general meeting or at its adjourned meeting shall be a person or persons together holding (or represented by proxy) on the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, that every holder of shares of the class shall be entitled on a poll to one vote for every such share held by such holder and that any holder of shares of that class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

#### **Alteration of Capital**

We may from time to time by the vote of a majority of the shares entitled to vote thereon (an **ordinary resolution**):

- increase our capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of larger amounts than our existing shares;
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person, and diminish the amount of our share capital by the amount of the shares so cancelled subject to the provisions of the Companies Act;

- sub-divide our shares or any of them into shares of smaller amounts than is fixed by our fourth amended and restated memorandum of association, subject nevertheless to the Companies Act, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such subdivision, one or more of the shares may have any such preferred, deferred or other rights, or be subject to any such restrictions as compared with the others as we have power to attach to unissued or new shares; and
- divide our shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares, attach to these shares respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions that in the absence of any such determination in general meeting may be determined by our directors.

We may, by the vote of two-thirds of the votes entitled to vote thereon (a “**special resolution**”), subject to any confirmation or consent required by the Companies Act, reduce our share capital or any capital redemption or other undistributable reserve in any manner authorized by law.

#### **Transfer of Shares**

Subject to any applicable restrictions set forth in our Memorandum and Articles of Association, any of our shareholders may transfer all or any of his or her shares by an instrument of transfer in the usual or common form or in a form prescribed by the Nasdaq Global Market or in any other form that our directors may approve.

Our directors may decline to register any transfer of any share which is not paid up or on which we have a lien. Our directors may also decline to register any transfer of any share unless:

- the instrument of transfer is lodged with us accompanied by the certificate for the shares to which it relates and such other evidence as our directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of share;
- the instrument of transfer is properly stamped (in circumstances where stamping is required); and
- a fee of such maximum sum as the Nasdaq Global Market may determine to be payable or such lesser sum as our directors may from time to time require is paid to us in respect thereof.

If our directors refuse to register a transfer, they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on notice being given by announcement or by electronic communication or by advertisement in such one or more newspapers or by any other means in accordance with the requirements of the Nasdaq Global Market, be suspended and the register closed at such times and for such periods as our directors may from time to time determine; provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year as our directors may determine, unless the Members by ordinary resolution approve to extend the period of 30 days in respect of any year.

#### **Share Repurchase**

We are empowered by the Companies Act and our Memorandum and Articles of Association to purchase our own shares, subject to certain restrictions. Our directors may only exercise this power on our behalf, subject to the Companies Act, our Memorandum and Articles of Association and to any applicable requirements imposed from time to time by the Nasdaq Global Market, the SEC, or by any other recognized stock exchange on which our securities are listed.

#### **Dividends**

Subject to the Companies Act, our directors may declare dividends in any currency to be paid to our shareholders. Dividends may be declared and paid out of our profits, realized or unrealized, or from any reserve set aside from profits which our directors determine is no longer needed. Our board of directors may also declare and pay dividends out of the share premium account or any other fund or account that can be authorized for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provides, (1) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for this purpose as paid up on that share; and (2) all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

Our directors may also pay any dividend that is payable on any shares semi-annually or on any other dates, whenever our financial position, in the opinion of our directors, justifies such payment.

Our directors may deduct from any dividend or bonus payable to any shareholder all sums of money (if any) presently payable by such shareholder to us on account of calls or otherwise.

No dividend or other money payable by us on or in respect of any share shall bear interest against us.

In respect of any dividend proposed to be paid or declared on our share capital, our directors may resolve and direct that (1) such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that our shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof if our directors so determine) in cash in lieu of such allotment or (2) the shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as our directors may think fit. Our directors may also resolve in respect of any particular dividend that, notwithstanding the foregoing, a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by check or dividend warrant sent by mail addressed to the holder at his registered address, or addressed to such person and at such addresses as the holder may direct. Every check or dividend warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the check or dividend warrant by the bank on which it is drawn shall constitute a good discharge to us.

All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by our board of directors for the benefit of our company until claimed. Any dividend unclaimed after a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to us.

Whenever our directors have resolved that a dividend be paid or declared, our directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe for our securities or securities of any other company. Where any difficulty arises with regard to such distribution, our directors may settle it as they think expedient. In particular, our directors may issue fractional certificates, ignore fractions altogether or round the same up or down, fix the value for distribution purposes of any such specific assets, determine that cash payments shall be made to any of our shareholders upon the footing of the value so fixed in order to adjust the rights of the parties, vest any such specific assets in trustees as may seem expedient to our directors, and appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, which appointment shall be effective and binding on our shareholders.

#### **Untraceable Shareholders**

We are entitled to sell any shares of a shareholder who is untraceable, provided that:

- all checks or warrants in respect of dividends of such shares, being not less than three in total number, for any sums payable in cash to the holder of such shares have remained un-cashed for a period of 12 years prior to the publication of the advertisement and during the three months referred to below;
- we have not during that time received any indication of the existence of the shareholder or person entitled to such shares by death, bankruptcy or operation of law; and
- we have caused an advertisement to be published in newspapers in the manner stipulated by our Memorandum and Articles of Association, giving notice of our intention to sell these shares, and a period of three months has elapsed since such advertisement and the Nasdaq Global Market has been notified of such intention.

The net proceeds of any such sale shall belong to us, and when we receive these net proceeds we shall become indebted to the former shareholder for an amount equal to such net proceeds.

#### **Differences in Corporate Law**

The Companies Act is modeled after similar laws in England but does not follow recent changes in English laws. In addition, the Companies Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the United States.



*Mergers and Similar Arrangements.* The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) “merger” means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a “consolidation” means the combination of two or more constituent companies into a combined company and the vesting of the undertaking, property and liabilities of such companies in the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by (a) a special resolution of the shareholders of each constituent company, and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with, among others, a declaration as to the solvency of the consolidated or surviving company, a statement of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

A merger between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders of that Cayman subsidiary if a copy of the plan of merger is given to every member of that Cayman subsidiary to be merged unless that member agrees otherwise. For this purpose a company is a “parent” of a subsidiary if it holds issued shares that together represent at least ninety percent (90%) of the votes at a general meeting of the subsidiary.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain limited circumstances, a shareholder of a Cayman constituent company who dissents from the merger or consolidation is entitled to payment of the fair value of his shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) upon dissenting to the merger or consolidation, provided that the dissenting shareholder complies strictly with the procedures set out in the Companies Act. The exercise of dissenter rights will preclude the exercise by the dissenting shareholder of any other rights to which he or she might otherwise be entitled by virtue of holding shares, save for the right to seek relief on the ground that the merger or consolidation is void or unlawful.

Separate from the statutory provisions relating to mergers and consolidations, the Companies Act also contains statutory provisions that facilitate the reconstruction and amalgamation of companies by way of schemes of arrangement, provided that the arrangement is approved by a majority in number of each class of shareholders or creditors with whom the arrangement is to be made, and who must in addition represent seventy-five per cent in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

The Companies Act also contains a statutory power of compulsory acquisition which may facilitate the “squeeze out” of dissentient minority shareholder upon a tender offer. When a tender offer is made and accepted by holders of 90.0% of the shares affected within four months, the offeror may, within a two-month period commencing on the expiration of such four-month period, by notice in the prescribed manner require the holders of the remaining shares to transfer such shares to the offeror on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud.

If an arrangement and reconstruction by way of scheme of arrangement is thus approved and sanctioned, or if a tender offer is made and accepted, in accordance with the foregoing statutory procedures, a dissenting shareholder would have no rights comparable to appraisal rights which would otherwise ordinarily be available to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

*Shareholders' Suits.* In principle, we will normally be the proper plaintiff to sue for a wrong done to us as a company, and as a general rule a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands court can be expected to follow and apply the common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) so that a non-controlling shareholder may be permitted to commence a class action against or derivative actions in the name of the company to challenge actions where:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a “fraud on the minority.”

*Corporate Governance.* Cayman Islands laws do not restrict transactions with directors, requiring only that directors exercise a duty of care and owe a fiduciary duty to the companies for which they serve. Under our Memorandum and Articles of Association, subject to any separate requirement for audit committee approval under the applicable rules of the Nasdaq Stock Market, Inc. or unless disqualified by the chairman of the relevant board meeting, so long as a director discloses the nature of his interest in any contract or arrangement which he is interested in, such a director may vote in respect of any contract or proposed contract or arrangement in which such director is interested and may be counted in the quorum at such meeting.

*Indemnification of Directors and Executive Officers and Limitation of Liability.* The ability of Cayman Islands companies to provide in their articles of association for indemnification of officers and directors is limited, insofar as it is not permissible for the directors to contract out of the core fiduciary duties they owe to the company, nor would any indemnity be effective if it were held by the Cayman Islands courts to be contrary to public policy, which would include any attempt to provide indemnification against civil fraud or the consequences of committing a crime. Our Memorandum and Articles of Association provide that our directors and officers shall be indemnified against all actions, costs, charges, losses, damages and expenses they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices, or in relation thereto; provided that such indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of our directors and officers. In addition, each shareholder agrees to waive any claim or right of action he might have, whether individually or by or in the right of the Company, against any director on account of any action taken by such director, or the failure of such director to take any action in the performance of his duties with or for the Company; provided that such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such director.

*Anti-Takeover Provisions in Our Memorandum and Articles of Association.* Some provisions of our Memorandum and Articles of Association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders, and the fact that we have a classified board of directors, with three classes of directors, each of which stands for election in a given year to serve for a term of three years, unless a director earlier resigns or is removed.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our Memorandum and Articles of Association, as amended and restated from time to time, for a proper purpose and for what they believe in good faith to be in the best interests of our company.

*Directors' Fiduciary Duties.* Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he or she reasonably believes to be in the best interests of the corporation and its stockholders. He or she must not use his or her corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore he owes duties to the company including the following—a duty to act in good faith in the best interests of the company, a duty not to make a personal profit based on his or her position as director (unless the company permits him to do so), a duty not to put himself in a position where the interests of the company conflict with his or her personal interest or his or her duty to a third party and a duty to exercise powers for the purpose for which such powers were intended. A director of a Cayman Islands company owes to the company a duty to act with diligence, skill and care. A director must exercise the skill and care of a reasonably diligent person having both – (a) the general knowledge, skill and experience that may reasonably be expected of a person in the same position (an objective test), and (b) if greater, the general knowledge, skill and experience that that director actually possesses (a subjective test).

*Shareholder Proposals.* Under the SEC's rules and regulations, a shareholder has the right to put any proposal before the annual meeting of shareholders of a public company, provided it complies with the notice provisions in the governing documents. The Delaware General Corporation Law does not provide shareholders an express right to put any proposal before the annual meeting of shareholders, but in keeping with common law, Delaware corporations generally afford shareholders an opportunity to make proposals and nominations provided that they comply with the notice provisions in the certificate of incorporation or bylaws. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Cayman Islands law does not provide shareholders with any right to table resolutions at a general meeting. Our Memorandum and Articles of Association provide that, an annual general meeting of the Company shall be held in each year other than the year of the Company's incorporation; each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting, which may be called only by the chairman of our board of directors or a majority of our board of directors and may not be called by any other person. As an exempted Cayman Islands company, we are not obliged by law to hold shareholders' annual general meetings under the Companies Act.

*Cumulative Voting.* Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. Cayman Islands law does not prohibit cumulative voting, but our Memorandum and Articles of Association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

*Appointment of Directors.* The shareholders may by ordinary resolution elect any person to be a director to fill a casual vacancy, and by special resolution elect any person to be a director as an addition to the existing board of directors. The directors may appoint any person as a director to fill a casual vacancy on the board of directors or as an addition to the existing board of directors. Any director appointed by the board of directors to fill a casual vacancy shall, unless designated by the board of directors as a class A director, a class B director or a class C director, hold office until the first general meeting after his appointment and be subject to re-election at such meeting, and any director appointed by the board of directors as an addition to the existing board of directors shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

*Removal of Directors.* Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, directors may be removed at any time by special resolution of our shareholders notwithstanding any agreement between the Company and such director (but without prejudice to any claim for damages under such agreement).

*Transactions with Interested Shareholders.* The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute in its certificate of incorporation or bylaws, it is prohibited from engaging in certain business combinations with an “interested shareholder” for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target’s outstanding voting stock or who or which is an affiliate or associate of the corporation and owned 15% or more of the corporation’s outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware corporation to negotiate the terms of any acquisition transaction with the target’s board of directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

*Dissolution; Winding Up.* Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation’s outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board.

Under Cayman Islands law, a company may be wound up by either an order of the courts of the Cayman Islands or by a special resolution of its shareholders or, if the company is unable to pay its debts as they fall due, by an ordinary resolution of its shareholders. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so. Under the Companies Act and our Memorandum and Articles of Association, our company may be dissolved, liquidated or wound up by a special resolution of our shareholders.

*Variation of Rights of Shares.* Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under our Memorandum and Articles of Association, subject to the Companies Act and without prejudice to the provisions relating to share rights in our Memorandum and Articles of Association, we may only vary the rights attached to any class of shares (subject to the terms of issue of the shares of that class) with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

*Amendment of Governing Documents.* Under the Delaware General Corporation Law, a corporation’s certificate of incorporation may be amended only if adopted and declared advisable by the board of directors and approved by a majority of the outstanding shares entitled to vote and the bylaws may be amended with the approval of a majority of the outstanding shares entitled to vote and may, if so provided in the certificate of incorporation, also be amended by the board of directors. Under the Companies Act, our Memorandum and Articles of Association may only be amended by special resolution of our shareholders.

*Rights of Non-Resident or Foreign Shareholders.* There are no limitations imposed by our Memorandum and Articles of Association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our Memorandum and Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

*Directors’ Power to Issue Shares.* Under our Memorandum and Articles of Association, our board of directors is empowered to issue or allot shares or grant options and warrants with or without preferred, deferred, qualified or other special rights or restrictions.

### **Issuance of Additional Common Shares or Preferred Shares**

Our Memorandum and Articles of Association authorizes our board of directors to issue additional common shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our Memorandum and Articles of Association authorize our board of directors to establish from time to time one or more series of preferred shares and to determine, with respect to any series of preferred shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue series of preferred shares without action by our shareholders to the extent of authorized but unissued shares. Accordingly, the issuance of preferred shares may adversely affect the rights of the holders of the common shares. In addition, the issuance of preferred shares may be used as an anti-takeover device without further action on the part of the shareholders. Issuance of preferred shares may dilute the voting power of holders of common shares.

Subject to applicable regulatory requirements, our board of directors may issue additional common shares without action by our shareholders to the extent of available authorized but unissued shares. The issuance of additional common shares may be used as an anti-takeover device without further action on the part of the shareholders. Such issuance may dilute the voting power of existing holders of common shares

### **Inspection of Books and Records**

Holders of our common shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, our Memorandum and Articles of Association provide that our register of members will be open to inspection for such times and on such days as our board of directors shall determine. Our accounting and other records are not available for inspection (other than by the board of directors) unless otherwise provided by applicable law, authorized by the board of the directors, or by the shareholders in a general meeting. However, we will provide our shareholders with annual audited financial statements.

### **DESCRIPTION OF AMERICAN DEPOSITARY SHARES**

#### **General**

American Depositary Shares are frequently referred to as “ADSs” and represent ownership interests in securities that are on deposit with a depositary bank. ADSs may be represented by certificates that are commonly known as “American Depositary Receipts” or “ADRs.”

Citibank, N.A. (the “depositary” or the “depositary bank”) has agreed to act as the depositary bank for the American Depositary Shares. Citibank, N.A.’s depositary offices are located at 388 Greenwich Street, New York, New York 10013, U.S.A. A depositary bank typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank Hong Kong (the “custodian”). We appointed Citibank, N.A. as depositary bank pursuant to a deposit agreement, which has been filed with the SEC under cover of a Registration Statement on Form F-6 and is incorporated by reference as an exhibit to the annual report of which this exhibit is a part.

We are providing you with a summary description of the material terms of the ADSs and of your material rights as an owner of ADSs. Please remember that summaries by their nature lack the precision of the information summarized and that a holder’s rights and obligations as an owner of ADSs will be determined by reference to the terms of the deposit agreement and not by this summary. The portions of this summary description that are italicized describe matters that may be relevant to the ownership of ADSs but that may not be contained in the deposit agreement. This summary is not complete, and you should read the entire deposit agreement.

Each ADS represents rights with regard to two common shares on deposit with the custodian, including the right to receive any other property received by the depositary bank or the custodian on behalf of the owner of the ADS but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations, and to instruct the depositary bank how you would like to vote the common shares which your ADSs represent. We and the depositary bank may agree to change the ADS-to-common share ratio by amending the deposit agreement. This amendment may give rise to, or change, the depositary fees payable by ADS owners. The custodian, the depositary bank and their respective nominees will hold all deposited property for the benefit of the holders and beneficial owners of ADSs. The deposited property does not constitute the proprietary assets of the depositary bank, the custodian or their nominees. Beneficial ownership in the deposited property will under the terms of the deposit agreement be vested in the beneficial owners of the ADSs. The depositary bank, the custodian and their respective nominees will be the record holders of the deposited property represented by the ADSs for the benefit of the holders and beneficial owners of the corresponding ADSs. A beneficial owner of ADSs may or may not be the holder of ADSs. Beneficial owners of ADSs will be able to receive, and to exercise beneficial ownership interests in, the deposited property only through the registered holders of the ADSs, the registered holders of the ADSs (on behalf of the applicable ADS owners) only through the depositary bank, and the depositary bank (on behalf of the owners of the corresponding ADSs) directly, or indirectly, through the custodian or their respective nominees, in each case upon the terms of the deposit agreement.

If you are an owner of ADSs, you are party to the deposit agreement and therefore will be bound to its terms and to the terms of the ADR that represents your ADSs. The deposit agreement and the ADRs specify our rights and obligations as well as your rights and obligations as an owner of ADSs and those of the depositary bank. As a holder of our ADSs, you appoint the depositary bank to act on your behalf in certain circumstances. The deposit agreement and the ADRs are governed by New York law. However, our obligations to the holders of common shares will continue to be governed by the laws of the Cayman Islands, which may be different from the laws of the United States.

In addition, applicable laws and regulations may require you to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. You are solely responsible for complying with such reporting requirements and obtaining such approvals. Neither the depositary bank, the custodian, us nor any of their or our respective agents or affiliates shall be required to take any actions whatsoever on your behalf to satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

*As an owner of ADSs, we will not treat you as one of our shareholders and you will not have direct shareholder rights. The depositary bank will hold on your behalf the shareholder rights attached to the common shares underlying your ADSs. As an owner of ADSs you will be able to exercise the shareholders rights for the common shares represented by your ADSs through the depositary bank only to the extent contemplated in the deposit agreement. To exercise any shareholder rights not contemplated in the deposit agreement you will, as an ADS owner, need to arrange for the cancellation of your ADSs and become a direct shareholder.*

The manner in which you own the ADSs (e.g., in a brokerage account vs. as registered holder, or as holder of certificated vs. uncertificated ADSs) may affect your rights and obligations, and the manner in which, and extent to which, the depositary bank's services are made available to you. As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name, through a brokerage account, or through an account established by the depositary bank in your name reflecting the registration of uncertificated ADSs directly on the books of the depositary bank (commonly referred to as the "direct registration system"). The direct registration system reflects the uncertificated (book-entry) registration of ownership of ADSs by the depositary bank. Under the direct registration system, ownership of ADSs is evidenced by periodic statements issued by the depositary bank to the holders of the ADSs. The direct registration system includes automated transfers between the depositary bank and The Depository Trust Company ("DTC"), the central book-entry clearing and settlement system for equity securities in the United States. If you decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as an ADS owner. Banks and brokers typically hold securities such as ADSs through clearing and settlement systems such as DTC. The procedures of such clearing and settlement systems may limit your ability to exercise your rights as an owner of ADSs. Please consult with your broker or bank if you have any questions concerning these limitations and procedures. All ADSs held through DTC will be registered in the name of a nominee of DTC. No ADSs will be issued in bearer form. This summary description assumes you have opted to own the ADSs directly by means of an ADR registered in your name and, as such, we will refer to you as the "holder." When we refer to "you," we assume the reader owns ADSs and will own ADSs at the relevant time. If you hold your ADSs through a brokerage, please consult your broker for their own procedures regarding the topics discussed below.

The registration of the common shares in the name of the depositary bank or the custodian shall, to the maximum extent permitted by applicable law, vest in the depositary bank or the custodian the record ownership in the applicable common shares with the beneficial ownership rights and interests in such common shares being at all times vested with the beneficial owners of the ADSs representing the common shares. The depositary bank or the custodian shall at all times be entitled to exercise the beneficial ownership rights in all deposited property, in each case only on behalf of the holders and beneficial owners of the ADSs representing the deposited property.

#### **Notices**

The depositary bank shall arrange, at our request and expense, to provide copies thereof to all holders or make such notices, reports and other communications, including proxy soliciting materials, available to all holders on a basis similar to that for holders of common shares or on such other basis as we may advise the depositary bank or as may be required by any applicable law, regulation or stock exchange requirement.

On or before the first date on which we give notice, by publication or otherwise, of any meeting of holders of common shares or of any adjourned meeting or of the taking of any action by such holders other than at a meeting, or of the taking of any action in respect of any cash or other distributions or the offering of any rights in respect of our common shares, we will transmit to the depositary bank and the custodian a copy of the notice thereof in the English language but otherwise in the form given or to be given to holders of our common shares. The Company shall also furnish to the custodian and the depositary bank a summary, in English, of any applicable provisions or proposed provisions of the Memorandum and Articles of Association that may be relevant or pertain to such notice of meeting or be the subject of a vote thereat.

The depositary bank will, at our expense, make available a copy of any such notices, reports or communications issued by us and delivered to the depositary bank for inspection by the holders of the ADSs at the depositary bank's principal office, at the office of the custodian and at any other designated transfer office.

#### **Dividends and Distributions**

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the custodian bank. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the deposit agreement in proportion to the number of ADSs held as of a specified record date.

#### **Distributions of Cash**

Whenever we make a cash distribution for the securities on deposit with the custodian, we will give prior notice thereof to the depositary bank and we will deposit the funds with the custodian. Upon receipt of confirmation of the deposit of the requisite funds, the depositary bank will arrange, if necessary, for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to the laws of the Cayman Islands and regulations.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. The depositary bank will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

The depositary bank will hold any cash amounts it is unable to distribute in a non-interest bearing account for the benefit of the applicable holders and beneficial owners of ADSs until the distribution can be effected or the funds that the depositary bank holds must be escheated as unclaimed property in accordance with the laws of the relevant states of the United States.

#### **Distributions of Shares**

Whenever we make a free distribution of common shares for the securities on deposit with the custodian, we will give prior notice thereof to the depositary bank. The depositary bank will either distribute to holders new ADSs representing the common shares deposited or modify the ADS-to-common shares ratio, in which case each ADS you hold will represent rights and interests in the additional common shares so deposited. Only whole new ADSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new ADSs or the modification of the ADS-to-common shares ratio upon a distribution of common shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes or governmental charges, the depositary bank may sell all or a portion of the new common shares so distributed.

No such distribution of new ADSs will be made if it would violate applicable law or if it is not operationally practicable. If the depositary bank does not distribute new ADSs as described above, it may sell the common shares received upon the terms described in the deposit agreement and will distribute the proceeds of the sale as in the case of a distribution of cash.

#### **Distributions of Rights**

Whenever we intend to distribute rights to purchase additional common shares, we will give prior notice to the depositary bank and we will assist the depositary bank in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional ADSs to holders.

The depositary bank will establish procedures to distribute rights to purchase additional ADSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of ADSs, and if we provide all of the documentation contemplated in the deposit agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new ADSs upon the exercise of your rights. The depositary bank is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new common shares other than in the form of ADSs.

The depositary bank will not distribute the rights to you if:

- We do not timely request that the rights be distributed to you or we request that the rights not be distributed to you;
- We fail to deliver satisfactory documents to the depositary bank; or
- It is not reasonably practicable to distribute the rights.

The depositary bank will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the depositary bank is unable to sell the rights, it will allow the rights to lapse.

#### **Elective Distributions**

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional common shares, we will give prior notice thereof to the depositary bank and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the depositary bank in determining whether such distribution is lawful and reasonably practicable.

The depositary bank will make the election available to you only if it is reasonably practical and if we have provided all of the documentation contemplated in the deposit agreement. In such case, the depositary bank will establish procedures to enable you to elect to receive either cash or additional ADSs, in each case as described in the deposit agreement.

If the election is not made available to you, you will receive either cash or additional ADSs, depending on what a shareholder would receive upon failing to make an election, as more fully described in the deposit agreement.

#### **Other Distributions**

Whenever we intend to distribute property other than cash, common shares or rights to purchase additional common shares, we will notify the depositary bank in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the depositary bank in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to you and if we provide all of the documentation contemplated in the deposit agreement, the depositary bank will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes and governmental charges, the depositary bank may sell all or a portion of the property received.

The depositary bank will not distribute the property to you and will sell the property if:

- We do not request that the property be distributed to you or if we ask that the property not be distributed to you;
- We do not deliver satisfactory documents to the depositary bank; or
- The depositary bank determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.



## **Redemptions**

Whenever we decide to redeem any of the securities on deposit with the custodian, we will notify the depositary bank. If it is reasonably practicable and if we provide all of the documentation contemplated in the deposit agreement, the depositary bank will provide a notice of the redemption to the holders.

The custodian will be instructed to surrender the common shares being redeemed against payment of the applicable redemption price. The depositary bank will convert the redemption funds received into U.S. dollars upon the terms of the deposit agreement and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their ADSs to the depositary bank. You may have to pay fees, expenses, taxes and other governmental charges upon the redemption of your ADSs. If less than all ADSs are being redeemed, the ADSs to be retired will be selected by lot or on a pro rata basis, as the depositary bank may determine.

## **Changes Affecting Shares**

The common shares held on deposit for your ADSs may change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such common shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your ADSs would, to the extent permitted by law and the deposit agreement, represent the right to receive the property received or exchanged in respect of the common shares held on deposit. The depositary bank may in such circumstances deliver new ADSs to you, amend the deposit agreement, the ADRs and the applicable Registration Statement(s) on Form F-6, or call for the exchange of your existing ADSs for new ADSs and take any other actions that are appropriate to reflect as to the ADSs the change affecting the common shares. If the depositary bank may not lawfully distribute such property to you, the depositary bank may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

## **Issuance of ADSs Upon Deposit of Common Shares**

The depositary bank may create ADSs on your behalf if you or your broker deposit common shares with the custodian. The depositary bank will deliver these ADSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the common shares to the custodian. Your ability to deposit common shares and receive ADSs may be limited by U.S. and Cayman Islands legal considerations applicable at the time of deposit.

The issuance of ADSs may be delayed until the depositary bank or the custodian receives confirmation that all required approvals have been given and that the common shares have been duly transferred to the custodian. The depositary bank will only issue ADSs in whole numbers.

If you make a deposit of common shares, you will be responsible for transferring good and valid title to the depositary bank. As such, you will be deemed to represent and warrant that:

- The common shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.
- All preemptive (and similar) rights, if any, with respect to such common shares have been validly waived or exercised.
- You are duly authorized to deposit the common shares.
- The common shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and are not, and the ADSs issuable upon such deposit will not be, "restricted securities" (as defined in the deposit agreement).
- The common shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties are incorrect in any way, we and the depositary bank may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

## **Transfer, Combination and Split Up of ADRs**

As an ADR holder, you will be entitled to transfer, combine or split up your ADRs and the ADSs evidenced thereby. For transfers of ADRs, you will have to surrender the ADRs to be transferred to the depositary bank and also must:

- Ensure that the surrendered ADR is properly endorsed or otherwise in proper form for transfer;
- Provide such proof of identity and genuineness of signatures as the depositary bank deems appropriate;
- Provide any transfer stamps required by the State of New York or the United States; and
- Pay all applicable fees, charges, expenses, taxes and other government charges payable by ADR holders pursuant to the terms of the deposit agreement, upon the transfer of ADRs.

To have your ADRs either combined or split up, you must surrender the ADRs in question to the depositary bank with your request to have them combined or split up, and you must pay all applicable fees, charges and expenses payable by ADR holders, pursuant to the terms of the deposit agreement, upon a combination or split up of ADRs.

#### **Withdrawal of Shares Upon Cancellation of ADSs**

As a holder, you will be entitled to present your ADSs to the depositary bank for cancellation and then receive the corresponding number of underlying common shares at the custodian's offices. Your ability to withdraw the common shares may be limited by U.S. and Cayman Islands legal considerations applicable at the time of withdrawal. In order to withdraw the common shares represented by your ADSs, you will be required to pay to the depositary bank the fees for cancellation of ADSs and any charges and taxes payable upon the transfer of the common shares being withdrawn. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the ADSs will not have any rights under the deposit agreement.

If you hold ADSs registered in your name, the depositary bank may ask you to provide proof of identity and genuineness of any signature and such other documents as the depositary bank may deem appropriate before it will cancel your ADSs. The withdrawal of the common shares represented by your ADSs may be delayed until the depositary bank receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depositary bank will only accept ADSs for cancellation that represent a whole number of securities on deposit.

You will have the right to withdraw the securities represented by your ADSs at any time except for:

- Temporary delays that may arise because (i) the transfer books for the common shares or ADSs are closed, or (ii) common shares are immobilized on account of a shareholders' meeting or a payment of dividends.
- Obligations to pay fees, taxes and similar charges.
- Restrictions imposed because of laws or regulations applicable to ADSs or the withdrawal of securities on deposit.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your ADSs except to comply with mandatory provisions of law.

#### **Voting Rights**

As a holder, you generally have the right under the deposit agreement to instruct the depositary bank to exercise the voting rights for the common shares represented by your ADSs. The voting rights of holders of common shares are described in "—Voting Rights Attaching to the Shares" above.

At our request, the depositary bank will distribute to you any notice of shareholders' meeting received from us together with information explaining how to instruct the depositary bank to exercise the voting rights of the securities represented by ADSs.

If the depositary bank timely receives voting instructions from a holder of ADSs, it will endeavor to vote the securities represented by the holder's ADSs in accordance with such voting instructions.

In the event of voting by a show of hands, each shareholder has one vote irrespective of the number of common shares held by such person and the depositary bank shall vote or cause the custodian to vote all the common shares then on deposit in accordance with instructions received from a majority of holders giving voting instructions. In the event of poll voting, each shareholder has an amount of votes equal to the number of common shares held as of record date for the meeting and the depositary bank shall vote or cause the custodian to vote the common shares on deposit in respect of ADSs for which holder of ADSs have timely given voting instructions to the depositary bank.

If the depositary bank timely receives voting instructions from a holder of ADSs that fail to specify the manner in which the depositary bank is to vote the common shares represented by that holder's ADSs, the depositary bank will deem the holder to have voted in favor of the items set forth in the voting instructions. If the depositary bank does not timely receive voting instructions from a holder of ADSs and we have timely provided the depositary bank with our notice of meeting and related materials, that holder will be deemed, and the depositary bank will deem that holder to have instructed the depositary bank to give a discretionary proxy to a person designated by us to vote the common shares represented by the ADSs at our discretion, unless:

- we have failed to timely provide the depositary bank with our notice of meeting and related voting materials;
- we have instructed the depositary bank that we do not wish a discretionary proxy to be given;
- we have informed the depositary bank that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse impact on shareholders; or
- voting at the meeting is made on a show of hands.

We have advised the depositary bank that under the Cayman Islands' law as in effect as of the date of the deposit agreement, voting at any meeting of shareholders is by show of hands unless a poll is demanded. The depositary bank will not join in demanding a poll, whether or not requested to do so by holders of ADSs. Please see above under "—Voting Rights Attaching to the Shares."

Please note that the ability of the depositary bank to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the depositary bank in a timely manner.

## Fees and Charges

As an ADS holder, you will be required to pay the following fees under the terms of the deposit agreement:

Service		Rate
(1)	Issuance of ADSs upon deposit of Shares (excluding issuances as a result of distributions described in paragraph (4) below).	Up to U.S. \$5.00 per 100 ADSs (or fraction thereof) issued.
(2)	Delivery of Deposited Securities against surrender of ADSs.	Up to U.S. \$5.00 per 100 ADSs (or fraction thereof) surrendered.
(3)	Distribution of cash dividends or other cash distributions ( <i>i.e.</i> , sale of rights and other entitlements).	Up to U.S. \$2.00 per 100 ADSs (or fraction thereof) held.
(4)	Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional ADSs.	Up to U.S. \$5.00 per 100 ADSs (or fraction thereof) held.
(5)	Distribution of securities other than ADSs or rights to purchase additional ADSs ( <i>i.e.</i> , spin-off shares).	Up to U.S. \$5.00 per 100 ADSs (or fraction thereof) held.
(6)	Depository Services.	Up to U.S. \$2.00 per 100 ADSs (or fraction thereof) held.
(7)	Transfer of ADRs.	U.S. \$1.50 per certificate presented for transfer.

As an ADS holder you will also be responsible to pay certain charges such as:

- taxes (including applicable interest and penalties) and other governmental charges;
- registration fees as may from time to time be in effect for the registration of common shares or other Deposited Securities on the share register and applicable to transfers of common shares or other Deposited Securities to or from the name of the Custodian, the Depositary or any nominees upon the making of deposits and withdrawals, respectively;
- cable, telex and facsimile transmission and delivery expenses as are expressly provided in the Deposit Agreement to be at the expense of the person depositing or withdrawing Common shares or Holders and Beneficial Owners of ADSs;
- the expenses and charges incurred by the depositary bank in the conversion of foreign currency;
- fees and expenses as are incurred by the depositary bank in connection with compliance with exchange control regulations and other regulatory requirements applicable to common shares, Deposited Securities, ADSs and ADRs; and
- the fees incurred by the depositary bank, the Custodian, or any nominee in connection with the servicing or delivery of Deposited Securities.

ADS fees and charges for (i) the issuance of ADSs, and (ii) the cancellation of ADSs are charged to the person for whom the ADSs are issued (in the case of ADS issuances) and to the person for whom ADSs are cancelled (in the case of ADS cancellations). In the case of ADSs issued by the depositary bank into DTC, the ADS issuance and cancellation fees and charges may be deducted from distributions made through DTC, and may be charged to the DTC participant(s) receiving the ADSs being issued or the DTC participant(s) holding the ADSs being cancelled, as the case may be, on behalf of the beneficial owner(s) and will be charged by the DTC participant(s) to the account of the applicable beneficial owner(s) in accordance with the procedures and practices of the DTC participants as in effect at the time. ADS fees and charges in respect of distributions and the ADS service fee are charged to the holders as of the applicable ADS record date. In the case of distributions of cash, the amount of the applicable ADS fees and charges is deducted from the funds being distributed. In the case of (i) distributions other than cash and (ii) the ADS service fee, holders as of the ADS record date will be invoiced for the amount of the ADS fees and charges and such ADS fees and charges may be deducted from distributions made to holders of ADSs. For ADSs held through DTC, the ADS fees and charges for distributions other than cash and the ADS service fee may be deducted from distributions made through DTC, and may be charged to the DTC participants in accordance with the procedures and practices prescribed by DTC and the DTC participants in turn charge the amount of such ADS fees and charges to the beneficial owners for whom they hold ADSs. In the case of (i) registration of ADS transfers, the ADS transfer fee will be payable by the ADS Holder whose ADSs are being transferred or by the person to whom the ADSs are transferred, and (ii) conversion of ADSs of one series for ADSs of another series, the ADS conversion fee will be payable by the Holder whose ADSs are converted or by the person to whom the converted ADSs are delivered.

In the event of refusal to pay the depositary bank fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary bank fees from any distribution to be made to the ADS holder. Certain depositary fees and charges (such as the ADS services fee) may become payable shortly after the closing of the ADS offering. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary bank. You will receive prior notice of such changes. The depositary bank may reimburse us for certain expenses incurred by us in respect of the ADR program, by making available a portion of the ADS fees charged in respect of the ADR program or otherwise, upon such terms and conditions as we and the depositary bank agree from time to time.

#### **Amendments and Termination**

We may agree with the depositary bank to modify the deposit agreement at any time without your consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreement. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the ADSs to be registered under the Securities Act of 1933, as amended, or to be eligible for book-entry settlement, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the deposit agreement if you continue to hold your ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent you from withdrawing the common shares represented by your ADSs (except to comply with mandatory provisions of law).

We have the right to direct the depositary bank to terminate the deposit agreement. Similarly, the depositary bank may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depositary bank must give notice to the holders at least 30 days before termination, which notice shall fix a date for termination of the deposit agreement.

After the termination and prior to any sale of the deposited securities held on deposit, you will be able to request the cancellation of your ADSs and the withdrawal of the common shares represented by your ADSs and the delivery of all other property held by the depositary bank in respect of those common shares on the same terms as prior to the termination. During such period, the depositary bank will continue to collect all distributions received on the common shares on deposit (e.g., dividends) but will not distribute any such property to you until you request the cancellation of your ADSs.

At any time after the date fixed for termination of the deposit agreement, the depositary bank may sell the securities held on deposit. The depositary bank will hold the proceeds from such sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the depositary bank will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding (after deduction of applicable fees, expenses and taxes).

After termination, your obligations under the deposit agreement as an ADS holder will continue until your ADSs are presented to the depositary bank for cancellation.

## Books of Depositary

The depositary bank will maintain ADS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the ADSs and the deposit agreement.

The depositary bank will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

## Limitations on Obligations and Liabilities

The deposit agreement limits our obligations and the depositary bank's obligations to you. Please note the following:

- We and the depositary bank are obligated only to take the actions specifically stated in the deposit agreement without negligence or bad faith.
- The depositary bank disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided that it acts in good faith and in accordance with the terms of the deposit agreement.
- The depositary bank disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in common shares, for the validity or worth of the common shares, for any tax consequences that result from the ownership of ADSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the deposit agreement, for the timeliness of any of our notices or for our failure to give notice.
- We and the depositary bank will not be obligated to perform any act that is inconsistent with the terms of the deposit agreement.
- We and the depositary bank disclaim any liability if we or the depositary bank are prevented or forbidden from or subject to any civil or criminal penalty or restraint on account of, or delayed in, doing or performing any act or thing required by the terms of the deposit agreement, by reason of any provision, present or future of any law or regulation, any provision of our Memorandum and Articles of Association, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control.
- We and the depositary bank disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the deposit agreement or in our Memorandum and Articles of Association or in any provisions of securities on deposit.
- We and the depositary bank further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting common shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.
- We and the depositary bank also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of common shares but is not, under the terms of the deposit agreement, made available to you.
- We and the depositary bank may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We and the depositary bank also disclaim liability for any consequential or punitive damages for any breach of the terms of the deposit agreement. No disclaimer of any Securities Act liability is intended by any provision of the deposit agreement.
- Nothing in the deposit agreement gives rise to a partnership or joint venture, or establishes a fiduciary relationship, among us, the depositary bank and you as ADS holder.
- Nothing in the deposit agreement precludes Citibank (or its affiliates) from engaging in transactions in which parties adverse to us or the ADS owners have interests, and nothing in the deposit agreement obligates Citibank to disclose those transactions, or any information obtained in the course of those transactions, to us or to the ADS owners, or to account for any payment received as part of those transactions.

*As the above limitations relate to our obligations and the depositary's obligations to you under the deposit agreement, we believe that, as a matter of construction of the clause, such limitations would likely to continue to apply to ADS holders who withdraw the common shares from the ADS facility with respect to obligations or liabilities incurred under the deposit agreement before the cancellation of the ADSs and the withdrawal of the common shares, and such limitations would most likely not apply to ADS holders who withdraw the common shares from the ADS facility with respect to obligations or liabilities incurred after the cancellation of the ADSs and the withdrawal of the common shares and not under the deposit agreement.*

*In any event, you will not be deemed, by agreeing to the terms of the deposit agreement, to have waived our or the depositary's compliance with U.S. federal securities laws and the rules and regulations promulgated thereunder. In fact, you cannot waive our or the depositary's compliance with U.S. federal securities laws and the rules and regulations promulgated thereunder.*

#### **Taxes**

You will be responsible for the taxes and other governmental charges payable on the ADSs and the securities represented by the ADSs. We, the depositary bank and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depositary bank may refuse to issue ADSs, to deliver, transfer, split and combine ADRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The depositary bank and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depositary bank and to the custodian proof of taxpayer status and residence and such other information as the depositary bank and the custodian may require to fulfill legal obligations. You are required to indemnify us, the depositary bank and the custodian for any claims with respect to taxes based on any tax benefit obtained for you.

#### **Foreign Currency Conversion**

The depositary bank will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practical, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreement. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practical or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary bank may take the following actions in its discretion:

- Convert the foreign currency to the extent practical and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practical.
- Distribute the foreign currency to holders for whom the distribution is lawful and practical.
- Hold the foreign currency (without liability for interest) for the applicable holders.

#### **Governing Law/Waiver of Jury Trial**

The deposit agreement, the ADRs and the ADSs will be interpreted in accordance with the laws of the State of New York. The rights of holders of common shares (including common shares represented by ADSs) are governed by the laws of the Cayman Islands.

As an owner of ADSs, you irrevocably agree that any legal action arising out of the Deposit Agreement, the ADSs or the ADRs, involving the Company or the Depositary bank, may only be instituted in a state or federal court in the city of New York.

AS A PARTY TO THE DEPOSIT AGREEMENT, YOU IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, YOUR RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF THE DEPOSIT AGREEMENT OR THE ADRs AGAINST US AND/OR THE DEPOSITARY BANK.

*The deposit agreement provides that, to the extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depositary bank arising out of or relating to our common shares, the ADSs or the deposit agreement, including any claim under U.S. federal securities laws. If we or the depositary bank opposed a jury trial demand based on the waiver, the court would determine whether the waiver was enforceable in the facts and circumstances of that case in accordance with applicable case law. However, you will not be deemed, by agreeing to the terms of the deposit agreement, to have waived our or the depositary's compliance with U.S. federal securities laws and the rules and regulations promulgated thereunder.*

### Share Transfer Agreement

This Share Transfer Agreement (the "**Agreement**") is executed in Beijing, China, by and between the following parties on August 12, 2020:

**Haichang Xiong** (the "**Transferor**"), a PRC citizen, with the ID No. xxxxxxxxxxxx and the address as xxxxxxxxxxxx, Beijing;

**Jun Zhang**, (the "**Transferee**"), a PRC citizen, with the ID No. xxxxxxxxxxxx and the address as xxxxxxxxxxxx, Shandong;

**ATA Education Technology (Beijing) Limited** ("**ATA Education**"), a company incorporated and existing under the laws of the PRC located in Beijing ;

**ATA Intelligent Learning (Beijing) Technology Limited** ("**ATA Intelligent Learning** "), a company incorporated and existing under the laws of the PRC located in Beijing, China .

The Transferor, the Transferee, ATA Education and ATA Intelligent Learning are hereinafter referred to as the "Party" and collectively as the "Parties".

### Whereas

1. As of March 15, 2018, the parties have entered into the following agreements with respect to the establishment of a VIE company, ATA Intelligent Learning:
    - Loan Agreements, signed by ATA Education with Xiaofeng Ma and the Transferor, respectively, with the loan amount being RMB 9 million and RMB 1 million respectively;
    - Call Option and Cooperation Agreement, signed by ATA Education, Xiaofeng Ma, the Transferor and ATA Intelligent Learning;
    - Equity Interest Pledge Agreement, signed by ATA Education with Xiaofeng Ma and the Transferor, respectively;
    - Exclusive Technical Consulting and Services Agreement, signed by ATA Education and ATA Intelligent Learning;
    - Power of Attorney, signed and issued by Xiaofeng Ma and the Transferor to ATA Education, respectively.
    - Collectively, the agreements hereinabove referred to as the "**ATA Intelligent Learning VIE Agreements**"
  2. Due to business development needs, the parties have signed a Supplemental Agreement to ATA Intelligent Learning VIE Agreements on March 19, 2019, and a Supplemental Agreement II to ATA Intelligent Learning VIE Agreements on April 20, 2019 respectively in relation to capital increase.
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The aforementioned agreements are collectively referred to as the “**Supplemental Agreements to ATA Intelligent Learning VIE Agreements**”.

3. In accordance with the above agreements, as of the date of this Agreement, the registered capital of ATA Intelligent Learning is RMB 50 million, and the Transferor holds a capital contribution of RMB 5 million, which accounts for 10% of the total registered capital of ATA Intelligent Learning (hereinafter referred to as the “**Target Equity**”).
4. The Parties agree that the Transferor intends to transfer the Target Equity to the Transferee in accordance with the terms and conditions set forth herein, and the Transferee agrees to acquire the Target Equity (the aforementioned acquisition and sale of the Target Equity, hereinafter referred to as the “**Transaction**”).

Through friendly negotiation, the Parties agree to comply with in good faith as follows:

## **1. Transfer of the Target Equity**

1.1 Pursuant to this agreement, the Transferor agrees to transfer to the Transferee the Target Equity legally held by him and all related rights and obligations under the ATA Intelligent Learning VIE Agreements and the Supplementary Agreements to ATA Intelligent Learning VIE Agreements (collectively referred to as the “**Rights and Obligations under the VIE Agreements**”). The Transferee agrees to receive the Target Equity subject to the terms and conditions of this Agreement.

1.2 The Parties agree and confirm unanimously that the transfer price of the Target Equity is RMB 5,000,000 (hereinafter referred to as the “**Transaction Consideration**”).

1.3 The Parties agree that the Transaction Consideration shall be paid in cash and the payment schedule shall be handled in accordance with the following principles:

i. The Transferee shall pay the Transaction Consideration at one time to the account designated by the Transferor, i.e. RMB 5,000,000, within 10 business days following the execution date of this Agreement.

1.4 The Parties agree that all taxes and fees incurred in connection with this transaction shall be borne by each Party respectively.

## **2. Closing**

2.1 For the purpose of Closing, the Transferor and the Transferee shall, within 10 business days following the execution date of this Agreement, sign all the relevant documents required for the registration of the transfer of the Target Equity in accordance with the laws and regulations applicable to ATA Intelligent Learning and the requirements of relevant government agencies.

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2.2 The Transferor shall (and shall procure ATA Intelligent Learning to) complete the registration with competent market regulation authorities in relation to the transfer of the Target Equity to the Transferee within 60 business days following the execution date of this Agreement, and the completion date of such registration shall be the closing date (hereinafter referred to as the “**Closing Date**”).

### **3. Transfer of Rights and Obligations and Division of Responsibilities**

3.1 Since the Closing Date, the Transferee shall become the sole owner of the Target Equity, and the Rights and Obligations under the VIE Agreements related to the Target Equity shall be solely enjoyed and assumed by the Transferee, and the Transferor shall not be liable for any Rights and Obligations under the VIE Agreements.

3.2 The Transferee acknowledges and agrees that, since the Closing Date, the Transferee irrevocably waives any right to claim any liability or claim against the Transferor in respect of its Rights and Obligations under the VIE Agreements.

3.3 Other terms of ATA Intelligent Learning VIE Agreements and Supplemental Agreements to ATA Intelligent Learning VIE Agreements signed by the parties shall remain unchanged.

### **4. Representations and Warranties**

4.1 From the execution to the termination of this Agreement, the Transferor shall make the following representations and warranties to the Transferee:

4.1.1 The Transferor has the right to execute and perform this Agreement and has obtained all necessary and appropriate approvals and authorizations for the execution and performance of this Agreement;

4.1.2 Once signed, this Agreement shall constitute an obligation that is legally valid and enforceable against the Transferor in accordance with the applicable laws.

4.1.3 There shall be no dispute, lawsuit, arbitration, administrative proceeding or any other legal proceeding in connection with the Transferor, nor any potential dispute, lawsuit, arbitration, administrative proceeding or any other legal proceeding in connection with the Transferor.

4.2 From the execution to the termination of this Agreement, the Transferee represents and warrants as follows:

4.2.1 The Transferee is entitled to execute and perform this Agreement and has obtained all necessary and appropriate approvals and authorizations for the execution and performance of this Agreement;

4.2.2 Once signed, this Agreement constitutes an obligation that is legally valid and enforceable against the Transferee according to the applicable laws; and

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4.2.3 There shall be no dispute, lawsuit, arbitration, administrative proceeding or any other legal proceeding in connection with the Transferee, nor any potential dispute, lawsuit, arbitration, administrative proceeding or any other legal proceeding in connection with the Transferee.

## **5. Liability for Breach of Contract**

5.1 If either Party breaches this Agreement, making it impossible to perform this Agreement in whole or in part, such Party shall bear the liability for breach of contract and compensate the other Parties for losses incurred (including legal costs and attorney's fees incurred); If all Parties breach the contract, each Party shall bear its respective responsibilities according to the actual situation.

5.2 If the Transferee fails to pay the relevant Transaction Consideration to the Transferor as agreed herein, for each day delayed, the Transferee shall pay liquidated damages to the Transferor at the rate of 0.05% per day for the overdue amount.

## **6. Notice**

6.1 All notices and other communications required or sent under this Agreement shall be delivered by hand, registered mail, postage prepaid or commercial express services or by fax to the following addresses of the Parties. Each notice shall also be re-sent by E-mail. The date on which such notice shall be deemed to have been effectively delivered shall be determined as follows:

6.1.1 If the notice is delivered by hand, express, registered or prepaid mail, the date of delivery shall be deemed as the effective date of delivery.

6.1.2 If the notice is delivered via fax, the date of successful transmission shall be deemed as the effective date of delivery (as evidenced by the automatically generated transmission confirmation message).

6.2 For the purpose of the notice, the addresses of the Parties are as follows:

Transferor: Haichang Xiong

Address:[]

Phone:[]

Transferee : Jun Zhang

Address:[]

Phone:[]

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ATA Education Technology (Beijing) Limited

Address:[]

Contract Person:[]

Phone:[]

ATA Intelligent Learning (Beijing) Technology Limited

Address:[]

Contract Person:[]

Phone:[]

6.3 Each Party may give notice to the other party to change the address at which it receives the notice, at any time in accordance with provisions of this Section.

## **7. Governing law and dispute resolution**

7.1 The conclusion, validity, interpretation, performance, modification and termination of this Agreement and the settlement of disputes shall be governed by PRC laws.

7.2 Any dispute arising from the interpretation and performance of this Agreement shall first be settled by the Parties hereto through friendly negotiation. If the dispute remains unresolved within 30 days after one party sends a written notice to the other parties requesting a negotiated settlement, any Party may submit the dispute to [China International Economic and Trade Arbitration Commission] for arbitration in accordance with its arbitration rules in effect at that time. The arbitration shall take place in [Beijing] and the language shall be Chinese. The arbitration award shall be final and binding upon all Parties.

7.3 In the event of any dispute arising from the interpretation and performance of this Agreement or in the event of arbitration, the Parties hereto shall, except for the matters in dispute, continue to exercise their other rights and perform their other obligations under this Agreement.

## **8. Miscellaneous**

8.1 This Agreement shall come into force as of the signing date by the Parties.

8.2 The Agreement is made in Chinese in quadruplicate, with each Party holding one copy and each copy having the same effect.

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8.3 The Parties hereto may modify and supplement this Agreement through written agreement. The modification agreement and/or supplementary agreement among the Parties hereto relating to this Agreement shall form an integral part of this Agreement and shall have the same legal effect as this Agreement.

8.4 The validity, legality or enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired if any one or more of the provisions of this Agreement are ruled to be invalid, illegal or unenforceable in any respect pursuant to any law or regulation. The Parties shall seek, through good faith negotiations, to establish effective provisions to replace invalid, illegal or unenforceable provisions to the maximum extent permitted by law and desired by the Parties. The economic effect of such valid provisions shall be as similar as possible to the economic effect of invalid, illegal or unenforceable provisions.

8.5 The annexes (if any) hereto shall form an integral part of this Agreement and have the same legal effect as this Agreement.

In witness whereof, the Parties have caused this Share Transfer Agreement to enter into force and effect on the date first written above and signed by their authorized representatives.

Transferor : Haichang Xiong

Transferee: Jun Zhang

ATA Education Technology (Beijing) Limited

ATA Intelligent Learning (Beijing) Technology Limited

## LOAN AGREEMENT

The Loan Agreement (the “Agreement”) is entered into as of August 12, 2020 between the following two parties:

- (1) ATA Education Technology (Beijing) Limited (the “Lender”), a limited liability company established and registered in the People's Republic of China (“PRC”) located in Beijing, China.
- (2) Jun Zhang (the “Borrower”)
 

PRC ID NUMBER: xxxxxxxxxxxx  
ADDRESS: xxxxxxxxxxxx, Shandong

The Lender and the Borrower will each be referred to as a “Party” and collectively referred to as the “Parties.”

### WHEREAS:

1. The Borrower desires to purchase 10% of the equity interest (hereinafter referred to as the "Borrower's equity") of ATA Intelligent Learning (Beijing) Technology Limited (hereinafter referred to as "ATA Intelligent Learning"); ATA Intelligent Learning is a limited liability company incorporated in Beijing, China. As of the date of this Agreement, registered capital of ATA Intelligent Learning is RMB 50 million; ATA Intelligent Learning is engaged in the relevant business ("Core Business") as recorded in the business scope of its business license by law;
2. The Lender is a wholly foreign-owned enterprise registered and established in Beijing, China. It possesses expertise and resources in the technical and strategic consulting aspects in the aforementioned major business areas of ATA Intelligent Learning, and has signed the “Exclusive Technical Consulting and Services Agreement” (hereinafter referred to as the “Service Agreement”) with ATA Intelligent Learning on March 15, 2018; and
3. The Lender intends to provide the Borrower with a loan for the Borrower to purchase the equity interest of ATA Intelligent Learning.

NOW THEREFORE, the Parties agree as follows:

### 1. LOAN

- 1.1 The Lender agrees to provide a loan to the Borrower with the principal amount equivalent to RMB 5 million for investment in ATA Intelligent Learning in accordance with the terms and conditions set forth herein (the “Loan”). The term for the Loan shall be ten (10) years which may be extended upon the Agreement of the Parties (the “Term”). Notwithstanding the foregoing, in the following circumstances, the Borrower shall repay the Loan regardless if the Term has expired:
    - 1.1.1 the Loan shall be due 30 days upon receiving written notice from the Lender requesting for repayment;
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- 1.1.2 the Borrower deceases or becomes a person without legal capacity or with limited legal capacity;
  - 1.1.3 for any reason, when the Borrower no longer works for the Lender, ATA Intelligent Learning or its affiliates;
  - 1.1.4 the Borrower commits a crime or is involved in a criminal act;
  - 1.1.5 any third party claiming from the Borrower for payment of more than RMB 100,000; or
  - 1.1.6 according to applicable PRC laws, foreign investors may invest in value-added telecommunication services through controlled or wholly-owned companies in China and/or other business as approved by the Lender, and the relevant Chinese authorities have begun approving such businesses, and the Lender decides to exercise the exclusive right of purchase in the "Call Option and Cooperation Agreement" as described under this Agreement (hereinafter referred to as the "Call Option and Cooperation Agreement").
- 1.2 The Lender shall remit the Loan amount in full to an account designated by the Borrower within twenty (20) days after receiving the Borrower's disbursement notice in writing, provided that all of the conditions precedent to the disbursement set forth in Section 2 of this Agreement have been fully satisfied. The Borrower shall deliver a written confirmation to the Lender on the same day after receiving the above Loan. The Loan under this Agreement is only applicable to the Borrower, and cannot be assigned to the Borrower's heirs or any assignees.
- 1.3 The Borrower agrees to accept the abovementioned Loan provided by the Lender, and hereby agrees and warrants that, the Loan will be used for capital investment in ATA Intelligent Learning to develop its business. Unless with the Lender's prior written consent, Borrower shall not use the abovementioned Loan for any other purpose.
- 1.4 The Lender and the Borrower hereby consent and confirm that, unless both the Lender and the Borrower agree otherwise, the Borrower's repayment method can only be determined by the Lender and may take the following form: according to the purchase rights and the Lender having the right to purchase the Borrower's equity provision as defined in the Call Option and Cooperation Agreement, the Borrower transfers all of the Borrower's equity to the Lender or any person designated by the Lender (legal person or natural person).
- 1.5 The Lender and the Borrower hereby consent and confirm that, any proceeds that the Borrower receives through transferring the Borrower's equity, if permitted, shall be used as the Loan repayment to the Lender according to this Agreement, and shall be paid in the method as defined by the Lender.

- 1.6 The Lender and the Borrower hereby jointly agree and confirm that the Lender has the right, but not obligation at any time to, purchase or designate a third Party (legal person or natural person) to purchase all or part of the Borrower's equity at a price as defined in the Call Option and Cooperation Agreement (as permitted under the PRC law).
- 1.7 The Borrower undertakes to sign an irrevocable Power of Attorney (hereinafter referred to as the "Power of Attorney") and to delegate all his rights as a shareholder of ATA Intelligent Learning to the Lender or a legal person or natural person designated by the Lender.
- 1.8 In the event the Borrower transfers the Borrower's equity in ATA Intelligent Learning to the Lender or a third Party transferee designated by the Lender, if the amount of actual transfer price equals or is less than the principal amount of the Loan, or the Borrower and the Lender confirm jointly to repay the Loan in cash, the Loan shall be deemed as interest free; if the amount of the actual transfer price is higher than the principal amount of the Loan, the amount exceeding the principal amount of the Loan shall be deemed as an interest accrued on the Loan and shall be paid by the Borrower to the Lender in full.

## **2. CONDITIONS PRECEDENT TO DISBURSEMENT**

Only in the event that the following conditions are satisfied in full or waived by the Lender in writing that the Lender will have the obligation to provide the Loan to Borrower as per the terms in Section 1.1.

- 2.1 The Lender has received promptly the written disbursement notice from the Borrower according to the terms in Section 1.2.
- 2.2 The Service Agreement signed between ATA Intelligent Learning and the Lender is still valid; under the terms of the Agreement and as permitted under PRC law, the Lender or person designated by the Lender shall provide technical support services to ATA Intelligent Learning as an exclusive service provider.
- 2.3 The Borrower, ATA Intelligent Learning and the Lender have signed the "Equity Interest Pledge Agreement" (hereinafter referred to as the "Equity Pledge Agreement"): according to the contract, the Borrower agrees to pledge all the Borrower's equity to the Lender or any person designated by the Lender.
- 2.4 The Borrower, ATA Intelligent Learning and the Lender declare that they have signed the "Call Option and Cooperation Agreement" (the "Call Option and Cooperation Agreement") as signatories: according to the contract and as permitted under PRC law, the Borrower shall irrevocably grant the Lender an exclusive right to purchase all the Borrower's equity.



- 2.5 The Borrower has signed an irrevocable Power of Attorney to delegate the Lender or its designee (legal representative or natural person) all his rights of being the shareholder of ATA Intelligent Learning.
- 2.6 The above-mentioned Equity Pledge Agreement, Power of Attorney, Call Option and Cooperation Agreement and Service Agreement were signed before or at the same time with this Agreement, have full legal effect and have no incidence of any default or obstruction for any contract or agreement, and all relevant filing procedures, approvals, authorizations, registrations and government procedures have been obtained or completed (if necessary).
- 2.7 The representation and warranties made by the Borrower under Section 3.2 remain true, complete, correct and non-misleading.
- 2.8 The Borrower has not breached any of his commitments made under Section 4 of this Agreement and has not incurred or foresee will incur any event that may affect the Borrower performing his obligations under this Agreement.

### **3. REPRESENTATION AND WARRANTIES**

- 3.1 From the signing date till the termination of this Agreement, the Lender hereby represents and warrants to the Borrower that:
- 3.1.1 the Lender is a company registered and validly existing under the laws of PRC;
  - 3.1.2 according to its Memorandum and Articles of Association and other organizational documents, the Lender has full right, power and all necessary approvals and authorizations to execute and perform this Agreement;
  - 3.1.3 this Agreement shall constitute the legal, valid and binding obligations of the Lender, which is enforceable against the Lender upon execution.
- 3.2 From the signing date till the termination of this Agreement, the Borrower hereby represents and warrants to the Lender that:
- 3.2.1 the Borrower has full right, power and all necessary and appropriate approval and authorization to execute and perform this Agreement;
  - 3.2.2 this Agreement shall constitute the legal and valid obligations of the Borrower, which is enforceable against the Borrower in accordance with its terms upon its execution; and
  - 3.2.3 there are no legal or other proceedings before any court, tribunal or other regulatory authorities pending or threatened against the Borrower.

#### **4. OBLIGATIONS AFTER DISBURSEMENT**

- 4.1 The Borrower, as a shareholder of ATA Intelligent Learning, irrevocably undertakes that while this Agreement remains effective, the Borrower will cause ATA Intelligent Learning to:
- 4.1.1 strictly observe the provisions of the Call Option and Cooperation Agreement and the Service Agreement, and do not undertake any action that may affect the validity and enforceability of the Call Option and Cooperation Agreement and the Service Agreement;
  - 4.1.2 upon request of the Lender (or its designee), the Borrower shall execute business cooperation contracts/agreements with the Lender (or its designee) and ensure their strict performance;
  - 4.1.3 upon request of the Lender, provide the Lender with all its operating and financial status information;
  - 4.1.4 immediately notify the Lender of any litigation, arbitration or administrative proceedings that will or may occur in connection with its assets, business, or revenue;
  - 4.1.5 upon request of the Lender, appoint any person designated by the Lender to serve as the director of ATA Intelligent Learning;
- 4.2 The Borrower promises that during the term of this Agreement, it shall:
- 4.2.1 do its utmost to cause ATA Intelligent Learning to carry on its Core Business;
  - 4.2.2 strictly observe the provisions of this Agreement, the Power of Attorney, the Equity Pledge Agreement and the Call Option and Cooperation Agreement; effectively fulfill its obligations in this Agreement, the Power of Attorney, the Equity Pledge Agreement and the Call Option and the Cooperation Agreement; do not carry out any action or inaction that may affect the validity and enforceability of this Agreement, the Power of Attorney, the Equity Pledge Agreement and the Call Option and Cooperation Agreement;
  - 4.2.3 except as per the provisions specified in the Equity Pledge Agreement, the legal or beneficial rights of the Borrower's equity shall not be sold, transferred, pledged or disposed of in any other ways, or be used as provision for guarantee;
  - 4.2.4 urge the shareholders and/or board of directors of ATA Intelligent Learning not to approve the sale, transfer, pledge, or disposal in any other ways of the legal or beneficial rights of the Borrower's equity without the prior written consent of the Lender, except when made to the Lender or any person designated by the Lender;

- 4.2.5 urge the shareholders and/or board of directors of ATA Intelligent Learning not to approve ATA Intelligent Learning to merge or associate with, nor to acquire or invest in anyone without the prior written consent of the Lender;
- 4.2.6 immediately notify the Lender of any litigation, arbitration or administrative procedures that will or may occur in connection with the Borrower's equity;
- 4.2.7 to maintain ownership of the Borrower's equity, sign all necessary or appropriate documents, take all necessary or appropriate actions and make all necessary or appropriate charge, or make necessary and appropriate defenses against all claims;
- 4.2.8 without prior written consent of the Lender, the Borrower shall not engage in any acts and/or omissions that may have any material impact on the assets, businesses and responsibilities of ATA Intelligent Learning;
- 4.2.9 upon request of the Lender, appoint any person designated by the Lender to serve as the director of ATA Intelligent Learning;
- 4.2.10 to the extent permitted by PRC laws, upon request by the Lender at any time, transfer the Borrower's equity unconditionally, immediate and at any time, to the Lender or its designated representative, and urge the other shareholders of ATA Intelligent Learning to give up their rights of first refusal with respect to the aforesaid transfer described herein;
- 4.2.11 to the extent permitted by PRC laws, upon request by the Lender at any time, cause the other shareholders of ATA Intelligent Learning to transfer all their equity interests in ATA Intelligent Learning unconditionally, immediate and at any time, to the Lender or its designated representative. The Borrower hereby surrenders its right of first refusal with respect to the aforesaid transfer described herein;
- 4.2.12 if the Lender exercises its option to purchase the Borrower's equity from the Borrower in accordance with the Call Option and Cooperation Agreement, the Borrower shall give priority to repay the Lender's the Loan with all respective proceeds it receives; and
- 4.2.13 without the prior written consent of the Lender, it shall not supplement, change or modify the Memorandum and Article of Association of ATA Intelligent Learning, increase or decrease its registered capital, or change its equity structure in any way.

## **5. LIABILITIES FOR BREACH OF CONTRACT**

- 5.1 Any Party that violates the provisions of this Agreement, causing all or part of the Agreement not executable, shall bear liabilities for the breach, and compensate the other Party for any loss suffered (including any resulting litigation expenses and attorney fees); if both Parties are in breach of the contract, each Party shall bear the corresponding liability according to actual situation.
- 5.2 If the Borrower fails to carry out repayment obligations by the time specified in this Agreement, the Borrower shall be liable to daily overdue interest at 0.01% on any due and payable amount, until the Borrower repays all the Loan principal, overdue interest and other payments.

## **6. NOTIFICATIONS**

- 6.1 All notices and other communications required or issued under this Agreement shall be sent to the Party's address below by hand-delivered, registered post, postage prepaid, or commercial courier services or fax. Each notice should also be delivered by e-mail. The date on which such notice is deemed validly delivered is determined as follows:
- 6.1.1 if the notice is issued by hand-delivery, courier service or registered post, postage prepaid, the date of delivery will be the effective date of delivery.
- 6.1.2 if the notice is sent by facsimile, the date of successful delivery shall be deemed as the effective date of delivery (confirmed by the automatically generated confirmation of delivery).
- 6.2 For the purpose of notification, the Parties' addresses are as follows:
- the Lender: ATA Education Technology (Beijing) Limited (ATA Education)  
Address: 【\*】  
Recipient: 【\*】  
Phone: 【\*】  
Fax: 【\*】
- the Borrower: Jun Zhang  
Address: 【\*】  
Phone: 【\*】
- 6.3 Either Party may at any time gives notice to the other Party to change the address for receiving notices.

## **7. CONFIDENTIALITY**

The Parties acknowledge and confirm that any oral or written materials concerning this Agreement exchanged between them are confidential information. The Parties shall protect and maintain the confidentiality of all such confidential data and information and shall not disclose to any third party without the other Party's written consent, except (a) the data or information that was in the public domain or later becomes published or generally known to the public, provided that it is not released by the receiving Party, (b) the data or information that shall be disclosed pursuant to applicable laws or regulations, and (c) the data or information that shall be disclosed to one Party's legal counsel or financial counsel who shall also bear the obligation of maintaining the confidentiality similar to the obligations hereof. The undue disclosing of the confidential data or information of one Party's legal counsel or financial counsel shall be deemed the undue disclosing of such Party who shall take on the liability of breach of this Agreement. Notwithstanding the termination of this Agreement with or without cause, this section will remain effective.

## **8. GOVERNING LAW AND SETTLEMENT OF DISPUTES**

- 8.1 The execution, validity, interpretation, performance, implementation, termination and settlement of disputes of this Agreement shall be governed by the laws of PRC.
- 8.2 In event of any dispute arising from or in connection with this Agreement, the Parties shall attempt to resolve the dispute through friendly consultations. In the event that satisfactory resolution is not reached within thirty (30) days after commencement of such consultation, the dispute shall be submitted (which submission may be made by either the Borrower or the Lender) using Chinese to resolution by arbitration administered by China International Economic and Trade Arbitration Commissioner in Beijing, China, in accordance with the procedural rules of the Commissioner, effective at the time the application for arbitration is made. The arbitral award shall be final and binding upon all Parties hereto.
- 8.3 In the event of any dispute or dispute arising from the interpretation and performance of this Agreement, or while the dispute is undergoing arbitration, the Parties to this Agreement shall continue to exercise their rights and perform their respective obligations under this Agreement, except for the disputed matters.

## **9. OTHERS**

- 9.1 This Agreement shall become effective on the date of signing by both Parties and shall lapse until the date on which both Parties fulfill their respective obligations under this Agreement.
- 9.2 This agreement is based on Chinese and in two copies with the same legal effect. The Lender and the Borrower each holds one copy.

- 9.3 Both Parties to this Agreement may revise and supplement this Agreement through a written agreement. The amendments and/or supplemental agreements of this Agreement between the Parties are an integral part of this Agreement and shall have the same legal effect as this Agreement.
- 9.4 If any one or more of the provisions of this Agreement are ruled invalid, illegal or unenforceable in any respect according to any law or regulation, the validity, legality or enforceability of the remaining provisions of this Agreement shall not be in any way affected or damaged. The two Parties shall negotiate in good faith and seek to replace the invalid, illegal or unenforceable provisions to the extent permitted by laws and expected by both the Parties with effective provisions, and the economic effects of such effective provisions should be as far equivalent to those of the invalid, illegal or unenforceable provisions as possible.
- 9.5 The annex (if any) to this Agreement is an integral part of this Agreement and has the same legal effect as this Agreement.

(THE FOLLOWING SPACE IS INTENTIONALLY LEFT BLANK)

IN WITNESS WHEREOF, the Parties have duly executed this Agreement, or have caused this Agreement to be duly executed on their behalf, as of the date first hereinabove set forth.

LENDER:

ATA Education Technology (Beijing) Limited

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By: **Xiaofeng Ma**

Title: Legal Representative

BORROWER:

**Jun Zhang**

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## CALL OPTION AND COOPERATION AGREEMENT

Among

ATA Education Technology (Beijing) Limited

XIAOFENG MA

JUN ZHANG

and

ATA Intelligent Learning (Beijing) Technology Limited

August 2020

BEIJING, CHINA

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## Call Option and Cooperation Agreement

This Call Option and Cooperation Agreement ("this Agreement") is entered into in Beijing, People's Republic of China (the "PRC") on August 12, 2020 by and among:

Party A: ATA Education Technology (Beijing) Limited  
Address: Beijing, China

Party B: Xiaofeng Ma  
Address: xxxxxxxxxxxx, Beijing  
ID Number: xxxxxxxxxxxx

Party C: Jun Zhang  
Address: xxxxxxxxxxxx, Shandong  
ID Number: xxxxxxxxxxxx

Party D: ATA Intelligent Learning (Beijing) Technology Limited  
Address: Beijing, China

WHEREAS,

- (1) Party D, a company with limited liability duly organized under the People's Republic of China, Party B and Party C are shareholders of Party D and each holds 90% and 10% equity interests in Party D, respectively;
  - (2) Party A, a company with limited liability duly organized and validly existing under the laws of PRC, provides certain technical support, strategic consulting and other services to Party D, and currently party A is a major business partner of Party D;
  - (3) To finance the investment by Party B in Party D, Party A has entered into a loan agreement, Supplemental Agreement and Supplemental Agreement II to ATA Intelligent Learning VIE Agreements on March 15, 2018, March 19, 2019 and April 20, 2019, respectively, providing Party B with loans of RMB 45 million. Pursuant to the Agreements referred hereinbefore, Party B shall invest the full amount of the loans in Party D's registered capital; and
  - (4) To finance the investment by Party C in Party D, Party A has entered into a loan agreement (hereafter the "Loan Agreement" with Party C on August 12, 2020, providing Party C with loans of RMB 5 million. Pursuant to the Loan Agreement, Party C shall invest the full amount of the loans in Party D's registered capital; and
-

(5) Party B and Party C hereto wish to grant Party A or its designated eligible entity the exclusive purchase option to acquire, at any time upon satisfaction of the requirements under the PRC law, the entire or a portion of Party D's share equity/assets owned by Party B and/or Party C.

NOW THEREFORE, in accordance with the principle of sincere cooperation, mutual benefit and joint development and after friendly negotiations, the Parties hereby enter into the following agreements pursuant to the provisions of relevant laws and regulations of the PRC:

#### ARTICLE 1 DEFINITIONS

The terms used in this Agreement shall have the meanings set forth below:

- 1.1. "This Agreement" means this Call Option and Cooperation Agreement and all appendices thereto, including written instruments as originally executed and as may from time to time be amended and supplemented by the Parties hereto through written agreements;
- 1.2. "The PRC" means, for the purpose of this Agreement, the People's Republic of China, excluding Hong Kong, Taiwan and Macao;
- 1.3. "Date" means the year, month and day. In this Agreement, "within" or "no later than", when used before a year, month or day, shall always include the relevant year, month or day.

#### ARTICLE 2 THE GRANT AND EXERCISE OF PURCHASE OPTION

2.1 The Parties hereto agree that Party A shall be granted an exclusive purchase option to acquire, at any time upon satisfaction of the requirements under applicable laws and conditions as agreed in this Agreement (including, without limitation, when Party B and/or Party C cease to be Party D's directors or employees, or Party B and/or Party C attempt to transfer their share equity in Party D to any party other than the existing shareholders of Party D) or designate eligible entity to acquire entire or a portion of Party D's share equity or owned by Party B and Party C or each of them ("Option"). The Option granted hereby shall be irrevocable during the term of this Agreement and may be exercised by Party A or any eligible entity designated by Party A.

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2.2 Pursuant to the laws and regulations of the PRC, Party A (or its designated eligible entity) may exercise the Option by delivering a written notice to any of Party B and Party C or Party D (as the case maybe) (the "Exercise Notice"). The Exercise Notice shall define the specific portion of the shares to be purchased from Party B and/or Party C or the assets to be purchased from Party D (hereinafter referred to as the "Purchased Shares (Asset)) and the purchase method.

2.3 Within thirty (30) days of the receipt of the Exercise Notice, Party B, Party C, or Party D (as the case may be) shall execute a share/asset transfer contract and other documents necessary to carry through such transfer (collectively, the "Transfer Documents") with Party A (or any eligible party designated by Party A).

2.4 When applicable laws permit the exercise of the purchase option provided hereunder and Party A elects to exercise such purchase option, Party B, Party C and Party D shall unconditionally assist Party A to obtain all approvals, permits, registrations, filings and other procedures necessary to effect the transfer of relevant share equity or assets.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES

Each party hereto represents to the other parties that:

- 3.1 It has all the necessary rights, powers and authorizations to enter into this Agreement and perform its duties and obligations hereunder;
  - 3.2 The execution or performance of this Agreement shall not violate any significant contract or agreement to which it is a party or by which it or its assets are bounded.
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#### ARTICLE 4 EXERCISE PRICE

When it is permitted by applicable laws, Party A (or any eligible party designated by Party A) shall have the right to acquire, at any time, all of Party D's assets or its share equity owned by Party B and Party C, at a price equal to the sum of the principles of the loans (RMB 50 million) from Party A to Party B and Party C under the Loan Agreement. If Party A (or any eligible party designated by Party A) elects to purchase a portion of Party D's share equity or assets, then the exercise price for such purpose shall be adjusted accordingly based on the percentage of such share equity or assets to be purchased over the total share equity or assets. When Party A (or a qualified entity designated by party A) is to acquire all or a portion of Party D's equity share or assets from Party B and Party C pursuant to this Agreement, Party A has the right to substitute the principal amounts Party B and Party C respectively owe Party A under the Loan Agreement for the purchase prices payable to Party B and Party C, respectively.

#### ARTICLE 5 COVENANTS

The Parties further agree as follows:

5.1 Before Party A (or a qualified entity designated by Party A) has acquired all the equity or assets of Party D by exercising the purchase option provided hereunder, Party D shall not:

5.1.1 sell, assign, mortgage or otherwise dispose of, or create any encumbrance on, any of its assets, operations or any legal or beneficiary interests with respect to its revenues (unless such sale, assignment, mortgage, disposal or encumbrance is relating to its daily operation or has been disclosed to and agreed by Party A in writing);

5.1.2 enter into any transaction which may materially affect its assets, liability, operation, equity or other legal rights (unless such transaction is relating to its daily operation or has been disclosed to and agreed by Party A in writing); and

5.1.3 distribute any dividend to its shareholders in any manner.

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5.2 Before Party A (or a qualified entity designated by party A) has acquired all the equity/assets of Party D by exercising the purchase option provided hereunder, Party B and/or Party C shall not individually or collectively:

5.2.1 supplement, alter or amend the articles of association of Party D in any manner to the extent that such supplement, alteration or amendment may have a material effect on Party D's assets, liability, operation, equity or other legal rights (except for pro rata increase of registered capital mandated by applicable laws);

5.2.2 cause Party D enter into any transaction to the extent such transaction may have a material effect on Party D's assets, liability, operation, equity or other legal rights (unless such transaction is relating to Party D's daily operation or has been disclosed to and agreed by Party A in writing); and

5.2.3 cause Party D's board of directors adopt any resolution on distributing dividends to its shareholders.

5.3 Party B and Party C shall, to the extent permitted by applicable laws, cause Party D's operational term to be extended to equal the operational term of Party A.

5.4 Party A shall provide financings to Party D to the extent Party D needs such financing to finance its operation. In the event that Party D is unable to repay such financing due to its losses, Party A shall waive all recourse against Party D with respect to such financing.

5.5 To the extent Party B and/or Party C are subject to any legal or economic liabilities to any institution or individual other than Party A as a result of performing their obligations under this Agreement or any other agreements between them and Party A, Party A shall provide all support necessary to enable Party B, and/or Party C to duly perform their obligations under this Agreement and any other agreements and to hold Party B and/or Party C harmless against any loss or damage caused by their performance of obligations under such agreements.

5.6 To the extent Party A decides to transfer all its rights under the Loan Agreement to any third party and informs the other parties in writing, Party A shall have the right to transfer the rights and responsibilities under this Agreement to any third party without the prior consent from the other parties.

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## ARTICLE 6 CONFIDENTIALITY

Each Party shall keep confidential all the content of this Agreement. Without the prior consent of all Parties, no Party shall disclose any content of this Agreement to any other party or make any public announcements with respect to any content of this Agreement. Notwithstanding the forgoing provisions of this Article 6, the following disclosure shall be permitted: (i) disclosure made pursuant to any applicable laws or any rules of any stock exchange; (ii) disclosure of information which has become public information other than due to any breach by the disclosing party; (iii) disclosure to any Party's shareholders, legal counsel, accountants, financial advisors or other professional advisors, or (iv) disclosure to any potential purchasers of a Party or its shareholders' equity/assets, its other investors, debts or equity financing providers, provided that the receiving party of confidential information has agreed to keep the relevant information confidential (such disclosure shall be subject to the consent of Party A in the event that Party A is not the potential purchaser).

Parties agree that this Article 6 shall survive upon any invalidity, modification, expiration or termination of this Agreement.

## ARTICLE 7 APPLICABLE LAW AND EVENTS OF DEFAULT

The execution, effectiveness, interpretation, performance and dispute resolution of this Agreement shall be governed by the laws of the PRC.

Any violation of any provision hereof, incomplete performance of any obligation provided hereunder, any misrepresentation made hereunder, material concealment or omission of any material fact or failure to perform any covenants provided hereunder by any Party shall constitute an event of default. The defaulting Party shall assume all the legal liabilities pursuant to the applicable laws.

## ARTICLE 8 DISPUTE RESOLUTION

8.1 Any dispute arising from the performance of this Agreement shall be first subject to the Parties' friendly consultations. In the event any dispute cannot be solved by friendly consultations, the relevant dispute shall be submitted to China International Economic and Trade Arbitration Commission in accordance with the then effective arbitration rules of the Commission for arbitration;

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8.2 The arbitration shall be administered by the Beijing branch of China International Economic and Trade Arbitration Commission in accordance with the then effective arbitration rules of the Commission in Beijing;

8.3 The arbitration award shall be final and binding on the Parties. The costs of the arbitration (including but not limited to arbitration fee and attorney fee) shall be borne by the losing party, unless the arbitration award stipulates otherwise.

#### ARTICLE 9 EFFECTIVENESS

9.1 This Agreement shall be effective upon the execution hereof by all Parties hereto and shall remain effective thereafter. This Agreement may not be terminated without the unanimous consent of all the Parties except Party A may, by giving a thirty (30) days prior notice to the other Parties hereto, terminate this Agreement.

9.2 In the term of this Agreement, to the extent that the operation term of Party A or Party D expires or is terminated for other reasons, this Agreement shall be terminated upon such expiration or termination, provided that, Party A has transferred its rights and responsibilities pursuant to Article 5.6 under this Agreement.

#### ARTICLE 10 AMENDMENT

All Parties hereto shall fulfill their respective obligations hereunder. No amendment to this Agreement shall be effective unless such amendment has been agreed by all of the Parties and Party A and Party D have obtained necessary authorization and approvals with respect to such amendment. The amendment or modification to this Agreement shall be the integral part of this Agreement and shall have the same legal effect as this Agreement.

#### ARTICLE 11 COUNTERPARTS

This Agreement is executed in four (4) counterparts. Party A, Party B, Party C and Party D shall each hold one counterpart. All the counterparts shall have the same legal effect.

#### ARTICLE 12 MISCELLANEOUS

12.1 Party B and Party C's obligations, covenants and liabilities to Party A hereunder are joint and several, and Party B and Party C shall assume joint and several liabilities with respect to such obligations, covenants and liabilities.

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With respect to Party A, a default by Party B or Party C shall automatically constitute a default by the other Party, and vice versa;

12.2 The title and headings contained in this Agreement are for convenience of reference only and shall not in any way affect the meaning or interpretation of any provision of this Agreement;

12.3 The Parties may enter into supplementary agreements to address any issue not covered by this Agreement. The supplementary agreements so entered shall be an appendix hereto as the integral part of this Agreement and shall have the same legal effect as this Agreement.

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(Execution Page Only)

Party A: ATA Education Technology (Beijing) Limited

Authorized Representative (Signature):

Party B: Xiaofeng Ma

(Signature):

Party C: Jun Zhang

(Signature):

Party D: ATA Intelligent Learning (Beijing) Technology Limited

Authorized Representative (Signature):

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## **Equity Interest Pledge Agreement**

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*Between*

**ATA Education Technology (Beijing) Limited**

*and*

**Jun Zhang**

**August 2020**

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This Equity Interest Pledge Agreement (this “**Agreement**”) is entered in Beijing, the People's Republic of China (“**PRC**”, excluding the Hong Kong Special Administrative Region, the Macao Special Administrative Region and Taiwan, for the purposes of this Agreement) and dated on August 12, 2020 by and between the following parties:

- (1) **PLEDGEE: ATA Education Technology (Beijing) Limited** , a wholly foreign owned enterprise duly incorporated and validly existing under the laws of the PRC , with its registered address at **Beijing China**.

*and*

- (2) **PLEDGOR: Jun Zhang** , a citizen of the People's Republic of China with the address at xxxxxxx, Shandong.

(individually a “**Party**” and collectively the “**Parties**”)

**WHEREAS:**

- A. Pledgor is a PRC domestic company, and holds **10%** of the equity interest of **ATA Intelligent Learning (Beijing) Technology Limited** (“**Target Company**”).
- B. Target Company is a limited liability company registered in Beijing, which engages in the business of educational technology.
- C. The Pledgee, a wholly foreign-owned company registered in Beijing, PRC, and has been licensed by the relevant PRC government authority to carry on the business of transfer of technology, technology training and consulting, and the sale of its own products. The Pledgee and Target Company entered into a Exclusive Technical and Consulting Services Agreement on March 15, 2018, pursuant to which Target Company is required to pay service fees (the “**Service Fees**”) to the Pledgee in consideration for the corresponding services to be provided by the Pledgee (the “**Services Agreement**”).
- D. Simultaneous with the execution of this Agreement, the Pledgor has also entered into a Call Option and Cooperation Agreement with the Pledgee, pursuant to which the Pledgor grants to the Pledgee an exclusive right to purchase the Equity Interest (as defined below) at any time upon satisfaction of various requirements under PRC law (the “**Option Agreement**”).

- 
- E. In order to ensure that (i) the Pledgee collects Service Fees under the Services Agreement from Target Company, (ii) the Pledgor's other obligations under the Option Agreement are fulfilled, and (iii) all other debts, monetary liabilities or other payment obligations owed to the Pledgee by the Pledgor and/or Target Company, arising under or in relation to the Services Agreement including, but not limited to, any obligation to pay damages for a breach of any obligation of the Pledgor or Target Company under the Services Agreement (as applicable), are paid, the Pledgor is willing to pledge all the Equity Interest (as defined below,) i.e. the 10% equity interest of Target Company, equivalent to a contribution of 5 Million, to the Pledgee as security for the above-mentioned obligations of the Pledgor and Target Company (collectively, the "**Secured Obligations**").

In order to set forth each Party's rights and obligations, the Pledgee and the Pledgor through mutual negotiations hereby enter into this Agreement based upon the following terms:

**1. Definitions**

Unless otherwise provided in this Agreement, the following terms shall have the following meanings:

- 1.1 "**Pledge**" means the full content of Section 2 hereunder.
- 1.2 "**Equity Interest**" means all the equity interests in Target Company held by the Pledgor (including all present and future rights and benefits based on such equity interests), and any additional equity interests in Target Company acquired by such Pledgor subsequent to the date hereof. For the avoidance of any doubt, on the date hereof, the Pledgor holds a 10% equity interest (equivalent to a contribution of 5 Million) in Target Company.
- 1.3 "**Event of Default**" means any event in accordance with Section 6 hereunder.
- 1.4 "**Notice of Default**" means the notice of default issued by the Pledgee in accordance with this Agreement.
- 1.5 "**Effective Date**" This Agreement shall be effective upon its being signed by the Parties hereunder. Notwithstanding the foregoing, the Pledge (as defined in Section 2.1) shall only come into effect in accordance with Section 3 of this Agreement.

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## 2. **Pledge**

2.1 Each Pledgor hereby pledges, and if required, transfers and assigns the Equity Interest to the Pledgee as security for all of the Secured Obligations (the “**Pledge**”) of an amount up to the Maximum Amount (as defined below), and grant a first priority security interest in all rights, titles and interests that it has or may at any time hereafter acquire in and to the Equity Interest, together with all equity or other ownership interests representing a dividend on the Equity Interest, a distribution or return of capital upon or in respect of such Equity Interest, any subscription, first refusal, pre-emptive or other purchase rights with respect to or arising from such Equity Interest, any voting rights with respect to such Equity Interest or any other interest in Target Company which, by reason of notice or lapse of time or the occurrence of other events, may be converted into a direct equity interest in Target Company, and all proceeds of the foregoing (collectively, the “**Pledged Collateral**”).

2.1.1 The Parties understand and agree that the monetary valuation arising from, relating to or in connection with the Secured Obligations shall be a variable and floating valuation until the Settlement Date (as defined below). Therefore, based on the reasonable assessment and evaluation by the Pledgor and the Pledgee of the Secured Obligations and the Pledged Collateral, the Pledgor and the Pledgee mutually acknowledge and agree that the Pledge shall aggregately secure the Secured Obligations for a maximum amount of RMB 50 Million (the “**Maximum Amount**”) prior to the Settlement Date.

The Pledgor and the Pledgee may, taking into account the fluctuation in the monetary value of the Secured Obligations and the Pledged Collateral, adjust the Maximum Amount based on mutual agreement by amending and supplementing this Agreement, from time to time, prior to the Settlement Date.

2.1.2 Upon the occurrence of any of the events below (each an “**Event of Settlement**”), the Secured Obligations shall be fixed at a value of the sum of all Secured Obligations that are due, outstanding and payable to the Pledgee on or immediately prior to the date of such occurrence (the “**Fixed Obligations**”):

- (a) any or all of the Services Agreements or the Option Agreements expires or is terminated pursuant to the stipulations thereunder;

- 
- (b) the occurrence of an Event of Default pursuant to Section 6 that is not resolved, which results in the Pledgee serving a Notice of Default to the relevant Pledgor(s) pursuant to Section 6.3;
  - (c) the Pledgee reasonably determines (having made due enquiries) that any of the Pledgor and/or Target Company is insolvent or could potentially be made insolvent; or
  - (d) any other event that requires the settlement of the Secured Obligations in accordance with relevant laws of the PRC.
- 2.2 For the avoidance of doubt, the day of the occurrence of an Event of Settlement shall be the settlement date (the “**Settlement Date**”). On or after the Settlement Date, the Pledgee shall be entitled, at the election of the Pledgee, to enforce the Pledge in accordance with Section 7.
- 2.3 The Pledgee is entitled to collect any and all dividends or other distributions, if any, arising from the Equity Interest during the Term of the Pledge (as defined below).

### **3. Effectiveness of Pledge, Scope and Term**

- 3.1 The Pledgor shall, promptly after the execution of this Agreement, have this Agreement approved by Ministry of Commerce or its competent local authority (“**MOFCOM**”) and registered this Agreement and the Pledge hereunder with the State Administration for Industry and Commerce of the PRC or its competent local counterpart (the “**AIC**”). The Pledgor shall deliver to the Pledgee a copy of the registration or filing certificate from the AIC within 7 days from the date of submission of the application for registration of this Agreement and Pledge with the AIC.
- 3.2 The Pledge shall be effective upon the registration of the Pledge with the AIC in accordance with Section 3.1 above. The term of the Pledge shall commence on the date when the Pledge is registered with the AIC and shall expire on the earlier of (a) the date on which all outstanding Secured Obligations are paid in full or otherwise satisfied (as applicable) or (b) the Pledgee enforces the Pledge pursuant to the terms and conditions hereof, to satisfy its rights under the Secured Obligations and Pledged Collateral in full or (c) the Pledgor completes its transfer of the Equity Interest to another party (individual or legal entity) pursuant to the Option Agreement and no longer holds any equity interest in Target Company (the “**Term of the Pledge**”).

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**4. Representations and Warranties of the Pledgor**

The Pledgor hereby makes the following representations and warranties to the Pledgee and confirms that the Pledgee executes this Agreement in reliance on such representations and warranties:

- 4.1 The Pledgor is the legal owner of the Equity Interest that has been registered in his/her name, and is entitled to create a pledge on such Equity Interest.
- 4.2 None of the Pledged Collateral or the Pledge will be interfered with by any other pledgee at any time once the Pledgee exercises the rights of the Pledge in accordance with this Agreement.
- 4.3 The Pledgee shall be entitled to dispose or assign the Pledge in accordance with the relevant laws and this Agreement.
- 4.4 All necessary authorizations have been obtained for the execution and performance of this Agreement by the Pledgor and the execution and performance of this Agreement by the Pledgor does not violate any applicable laws or regulations. The representative of the Pledgor who signs this Agreement is lawfully and effectively authorized.
- 4.5 The Pledgor warrants that there is no on-going civil, administrative or criminal litigation or administrative punishment or arbitration related to the Equity Interest and is not aware of any such action pending or likely to be pending in the future as of the date of this Agreement.
- 4.6 There are no outstanding taxes, fees or undecided legal procedures related to the Equity Interest as of the date of this Agreement.
- 4.7 Each stipulation hereunder is the expression of each Party's true intention and shall be binding upon all the Parties.

**5. Covenants of the Pledgor**

- 5.1 The Pledgor covenants to the Pledgee that it shall:
  - 5.1.1 not transfer or assign the Equity Interest, or create or permit to be created any pledge, lien, charge, mortgage, encumbrance, option, security or other interest in or over the Equity Interest that has been registered in its name, other than the Pledge created hereunder and the option granted under the Option Agreement, without the prior written consent from the Pledgee;



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- 5.1.2        comply with and implement laws and regulations with respect to the pledge of rights, present to the Pledgee the notices, orders or suggestions with respect to the Pledge issued or made by the competent authority within 5 days upon receiving such notices, orders or suggestions and take actions in accordance with the reasonable instructions of the Pledgee; and
- 5.1.3        timely notify the Pledgee of any events or any received notices (i) which may affect the Equity Interest or any part of the Pledgee's rights, (ii) which may change the Pledgor's covenants or obligations under this Agreement or (iii) which may affect the Pledgor's performance of their obligations under this Agreement, and take actions in accordance with the reasonable instructions of the Pledgee.
- 5.2        The Pledgor agrees that the Pledgee's right of exercising the Pledge under this Agreement shall not be suspended or hampered by the Pledgor or any successors of the Pledgor or any person authorized by the Pledgor.
- 5.3        The Pledgor jointly and severally covenants to the Pledgee that in order to protect or perfect the security over the Secured Obligations, the Pledgor shall (i) execute in good faith and cause other parties who have interests in the Pledge to execute all the forms, instruments, agreements (including those required for the registration and de-registration of the Pledge with the AIC), and/or (ii) take actions and cause other parties who have interests in the Pledge to take actions as required by the Pledgee and (iii) allow the Pledgee to exercise the rights and authorization vested in the Pledgee under this Agreement.
- 5.4        The Pledgor agrees to promptly make or cause to be made any filings or records, give or cause to be given any notices and take or cause to be taken any other actions as may be necessary under the laws of the PRC, to perfect the Pledge of the Pledged Collateral, including the AIC registration set forth in Section 3.1.
- 5.5        The Pledgor covenants to the Pledgee that it will comply with and perform all the guarantees, covenants, agreements, representations and conditions for the benefits of the Pledgee. The Pledgor shall compensate for all the losses suffered by the Pledgee for such Pledgor's failure to perform or fully perform its guarantees, covenants, agreements, representations or conditions.

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**6. Events of Default**

- 6.1 Each of the following shall constitute an Event of Default:
- 6.1.1 Target Company or the Pledgor fails to make full and timely payment of any amounts due under the Secured Obligations as required under the Services Agreement or Option Agreement, or an event of default (as defined and stipulated in those agreements) has occurred and is continuing;
  - 6.1.2 the Pledgor makes or has made any inaccurate, incomplete, misleading or untrue representations or warranties under Section 4, or is in violation or breach of any of the representations and warranties under Section 4;
  - 6.1.3 the Pledgor breaches any of the covenants under Section 5;
  - 6.1.4 the Pledgor breaches any other covenants, undertakings or obligations of the Pledgor set forth herein;
  - 6.1.5 the Pledgor is unable to perform its obligations under this Agreement due to the separation or merger of Target Company with other third parties or for any other reason;
  - 6.1.6 the Pledgor relinquishes all or any part of the Pledged Collateral or transfers or assigns all or any part of the Pledged Collateral without the prior written consent of the Pledgee (except the transfers or assigns permitted under the Option Agreement);
  - 6.1.7 any indebtedness, guarantee or other obligation of the Pledgor, whether pursuant to a contract or otherwise, (i) is accelerated as a result of a default thereunder and is required to be repaid or performed prior to the due date; or (ii) has become due and is not repaid or performed when due which, in the Pledgee's reasonable view, has materially adversely affected the Pledgor's ability to perform their obligations under this Agreement;
  - 6.1.8 this Agreement is illegal as a result of any applicable laws or the Pledgor is restricted from continuing to perform its obligations under this Agreement;

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- 6.1.9 any approval, permit, license or authorization from any applicable governmental entity (or registration or filing procedure) required for Target Company to provide advertising services in the PRC is withdrawn, suspended, invalidated or materially amended;
  - 6.1.10 any approval, permit, license or authorization from any applicable government authority required to perform this Agreement or make this Agreement enforceable, legal and valid is withdrawn, suspended, invalidated or materially amended; or
  - 6.1.11 any property owned by the Pledgor is altered or damaged which, in the Pledgee's reasonable view, has materially adversely affected the Pledgor's ability to perform their obligations under this Agreement.
- 6.2 The Pledgor shall immediately give a written notice to the Pledgee if the Pledgor is aware or find that any event set forth in Section 6.1 or any events that may result in the foregoing events have occurred or are occurring.
  - 6.3 Unless an Event of Default set forth in Section 6.1 has been rectified to the Pledgee's satisfaction, the Pledgee, at any time the event of default occurs or thereafter, may give a written notice of default to the Pledgor, and require the Pledgor, at the discretion of the Pledgee, to immediately make full payment of the outstanding amounts payable under the Services Agreements, and/or Option Agreements, and other payables, or dispose of the Pledge in accordance with Section 7 herein.

**7. Exercise of the Rights of the Pledge**

- 7.1 The Pledgor shall not transfer or assign the Pledge without prior written approval from the Pledgee prior to the full settlement and fulfillment of the Secured Obligations.
- 7.2 The Pledgee shall give a notice of default to the Pledgor(s) when the Pledgee exercises the rights of Pledge.
- 7.3 Subject to Section 6.3, the Pledgee may exercise the right to dispose of the Pledge at any time when the Pledgee gives a notice of default in accordance with Section 6.3 or thereafter.

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- 7.4 The Pledgee is entitled to have priority in receiving payment by the evaluation or proceeds from the auction or sale of whole or part of the Pledged Collateral in accordance with legal procedures until the outstanding Secured Obligation or other monetary obligations payable by the Pledgor and/or Target Company is fully paid, repaid or otherwise settled.
- 7.5 The Pledgor shall not hinder the Pledgee from disposing the Pledge in accordance with this Agreement and shall give necessary assistance so that the Pledgee could realize its Pledge.

**8. Transfer or Assignment**

- 8.1 The Pledgor shall not donate or transfer their rights and obligations herein to any third party without prior written consent from the Pledgee.
- 8.2 This Agreement shall be binding upon the Pledgor and their successors and be effective to the Pledgee and its each successor and assignee.
- 8.3 The Pledgee may transfer or assign all Secured Obligations and its right to the Pledge to any third party at any time. In this case, the assignee shall enjoy and undertake the same rights and obligations herein of the Pledgee as if the assignee is a party hereto. When the Pledgee transfers or assigns the Secured Obligations and its rights to the Pledge, at the request of the Pledgee, the Pledgor shall execute the relevant agreements and/or documents with respect to such transfer or assignment.
- 8.4 After a change to the Pledgee resulting from a transfer or assignment, the new parties to the pledge shall re-execute a pledge contract.

**9. Termination**

This Agreement shall not terminate until the Term of the Pledge expires pursuant to Section 3 herein.

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**10. Force Majeure**

- 10.1 If this Agreement is delayed in or prevented from performing in the Event of Force Majeure (“**Event of Force Majeure**”), only within the limitation of such delay or prevention, the affected Party is absolved from any liability under this Agreement. Force Majeure, which includes acts of governments, acts of nature, fire, explosion, geographic change, flood, earthquake, tide, lightning, war, means any unforeseen events beyond the prevented Party's reasonable control and cannot be prevented with reasonable care. However, any shortage of credit, capital or finance shall not be regarded as an event beyond a Party's reasonable control. The Party affected by Force Majeure who claims for exemption from performing any obligations under this Agreement or under any Section herein shall notify the other party of such exemption promptly and advice him of the steps to be taken for completion of the performance.
- 10.2 The Party affected by Force Majeure shall not assume any liability under this Agreement. However, subject to the Party affected by Force Majeure having taken its reasonable and practicable efforts to perform this Agreement, the Party claiming for exemption of the liabilities may only be exempted from performing such liability as within limitation of the part performance delayed or prevented by Force Majeure. Once causes for such exemption of liabilities are rectified and remedied, both parties agree to resume performance of this Agreement with their best efforts.

**11. Applicable Law and Dispute Resolution**

- 11.1 The execution, validity, performance and interpretation of this Agreement shall be governed by and construed in accordance with the laws of the PRC.
- 11.2 The Parties shall strive to settle any dispute arising from the interpretation or performance through friendly consultation. In case no settlement can be reached through consultation, each party can submit such matter to China International Economic and Trade Arbitration Commission (“**CIETAC**”) for arbitration. The arbitration shall follow the then current rules of CIETAC, and the arbitration proceedings shall be conducted in Chinese and shall take place in Beijing. The arbitration award shall be final and binding upon the Parties. This article shall not be affected by the termination or elimination of this Agreement.

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- 11.3 In case of any disputes arising out of the interpretation and performance of this Agreement or any pending arbitration of such dispute, each Party shall continue to perform their obligations under this Agreement, except for the matters in dispute.

**12. Notice**

Any notice or correspondence, which is given by the Party as stipulated hereunder, shall be in Chinese writing and shall be delivered in person or by registered or prepaid mail or recognized express service, or be transmitted by telex or facsimile to addresses of the counter parties.

**13. Appendices**

The appendices to this Agreement constitute an integral part of this Agreement.

**14. Waiver**

The Pledgee's non-exercise or delay in exercise of any rights, remedies, power or privileges hereunder shall not be deemed as the waiver of such rights, remedies, power or privileges. Any single or partial exercise of the rights, remedies, power and privileges shall not exclude the Pledgee from exercising any other rights, remedies, power and privileges. The rights, remedies, power and privileges hereunder are accumulative and shall not exclude the application of any other rights, remedies, power and privileges stipulated by laws.

**15. Miscellaneous**

- 15.1 Any amendments, modifications or supplements to this Agreement shall be in writing and come into effect upon being executed and sealed by the Parties hereto.
- 15.2 In case any terms and stipulations in this Agreement are regarded as illegal or can not be performed in accordance with the applicable law, such terms and stipulations shall be deemed to ineffective and not enforceable within the scope governed by the applicable law, and the remaining stipulations will remain effective.
- 15.3 This Agreement, the Services Agreement, the Equity Option Agreement shall constitute the entire agreement among the parties in respect of the subject matter hereof and shall supersede any previous discussions, negotiations and agreements related thereto.

[The space below is intentionally left blank.]

IN WITNESS WHERE OF, the parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first written above.

PLEDGEE: ATA Education Technology (Beijing) Limited

(Company Seal)

By: \_\_\_\_\_  
Name: Xiaofeng Ma  
Title: Legal Representative

PLEDGOR: Jun Zhang

Sign: \_\_\_\_\_

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\_\_\_\_\_ Shareholder List  
(As of \_\_\_\_\_. Registered Capital is RMB \_\_\_\_\_, all of which has been paid in.)

No.	Name of Share holder	Address	Contribution (percentage)	Form of Contribution	Pledge
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(seal)

Signature :  
Name :  
Title : Legal representative  
Date :



## Power of Attorney

Authorizing Party: Jun Zhang  
Personal ID #: \*\*\*\*\*  
Address: \*\*\*\*\*, Shandong

Authorized Party: ATA Education Technology (Beijing) Limited  
Address: Beijing, China  
Telephone: \*\*\*\*\*  
Facsimile: \*\*\*\*\*

I, Jun Zhang, a PRC citizen, hereby irrevocably authorize ATA Education Technology (Beijing) Limited (hereinafter, “ATA Education”) to exercise the following rights during the term of this Power of Attorney:

Authorizing ATA Education or any eligible PRC citizens designated by ATA Education (hereinafter, the “Designees”, and ATA Education and the Designees are collectively referred to as the “Authorized Party”) thereby to act as my sole and exclusive agent who has full power to represent myself in connection with the following:

Exercising any and all of my voting rights in the capacity of a shareholder of ATA Intelligent Learning (Beijing) Technology Limited (hereinafter “ATA Intelligent Learning”) and such other shareholder’s rights, including but not limited to, appointing and electing, in the capacity of my authorized representative, directors, general manager and other executives of ATA Intelligent Learning in ATA Intelligent Learning’s shareholders’ meetings.

The Authorized Party has the right to, within the scope of authorization specified herein, execute on my behalf any transfer documents necessary for the performance of obligations under the Equity Interest Pledge Agreement and the Call Option and Cooperation Agreement, which will be executed on the same day as this Power of Attorney.

The Authorized Party has the right to join the liquidation committee and participate in liquidation matters on my behalf in the case of liquidation of ATA Intelligent Learning. I hereby acknowledge, ratify and approve any actions to be taken and documents to be executed by the Authorized Party during the liquidation of ATA Intelligent Learning.

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Any actions to be taken by and any documents to be executed by the Authorized Party in connection with ATA Intelligent Learning shall be considered taken/executed by myself. I hereby acknowledge, ratify and approve any actions to be taken and documents to be executed by the Authorized Party.

The abovementioned authorization and designation shall be subject to the following conditions: the Designees are PRC citizens and are employees of ATA Education, and the controlling shareholders of ATA Education consent to such authorization and designation. Promptly upon the occurrence that any Designees no longer hold any positions in ATA Education or ATA Education issues written notice to replace any Designees, I will immediately withdraw the authorization and designation granted to the Designees herein and will authorize and/or designate other employees that are PRC citizens designated by ATA Education to exercise my aforesaid shareholder's voting rights in ATA Intelligent Learning's shareholders' meetings.

The Authorized Party shall perform its fiduciary obligations in a prudent and diligent manner in accordance with law and within the scope of authorization, and shall hold the Authorizing Party free from any and all losses/damages arising out of such authorization and/or designation, except for the losses/damages caused by willful misconduct or gross negligence of the Authorized Party, in which case the Authorized Party shall bear all legal and economic liabilities to the Authorizing Party and ATA Intelligent Learning.

The Authorizing Party hereby agrees that the duration of this Power of Attorney shall be the same as that set forth in the Equity Interest Pledge Agreement and the Call Option and Cooperation Agreement, which will be executed on the same day as this Power of Attorney. The duration of this Power of Attorney shall be postponed accordingly in case the duration of Equity Interest Pledge Agreement and the Call Option and Cooperation Agreement is postponed.

Authorizing Party (signature): Jun Zhang

Date: August 12, 2020

**List of Subsidiaries****Subsidiaries:**

- ATA Testing Authority (Holdings) Limited, incorporated in the British Virgin Islands
- ATA Education Technology (Beijing) Limited (formerly known as “ATA Testing Authority (Beijing) Limited”), incorporated in the People’s Republic of China
- Xing Wei Institute (Hong Kong) Limited, incorporated in Hong Kong
- ACG International Group Limited, incorporated in the British Virgin Islands
- Beijing Huanqiuyimeng Education Consultation Corp., incorporated in the People’s Republic of China
- Beijing Miusi Education Co., Ltd., incorporated in the People’s Republic of China
- Muhua Shangce Learning Data & Technology (Beijing) Limited (formerly known as “ATA Learning Data & Technology (Beijing) Limited”), incorporated in the People’s Republic of China

**Consolidated Variable Interest Entity:**

- ATA Intelligent Learning (Beijing) Technology Limited, incorporated in the People’s Republic of China

***Filing date: April 13, 2021***

**Certification by the Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Xiaofeng Ma, certify that:

1. I have reviewed this annual report on Form 20-F of ATA Creativity Global (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 13, 2021

By: /s/Xiaofeng Ma  
Name: Xiaofeng Ma  
Title: Chief Executive Officer

**Certification by the Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Amy Tung, certify that:

1. I have reviewed this annual report on Form 20-F of ATA Creativity Global (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 13, 2021

By: /s/Amy Tung  
Name: Amy Tung  
Title: Chief Financial Officer

**Certification by the Chief Executive Officer Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Xiaofeng Ma, Chief Executive Officer of ATA Creativity Global (the “Company”), hereby certify, to the best of my knowledge, that the Company’s annual report on Form 20-F for the year ended December 31, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for the periods presented in the Report.

Date: April 13, 2021

By: /s/Xiaofeng Ma  
Name: Xiaofeng Ma  
Title: Chief Executive Officer

**Certification by the Chief Financial Officer Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Amy Tung, Chief Financial Officer of ATA Creativity Global (the “Company”), hereby certify, to the best of my knowledge, that the Company’s annual report on Form 20-F for the year ended December 31, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for the periods presented in the Report.

Date: April 13, 2021

By: /s/ Amy Tung  
Name: Amy Tung  
Title: Chief Financial Officer

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
ATA Creativity Global:

We consent to the incorporation by reference in the registration statement (No. 333 - 238277) on Form S-8 of ATA Creativity Global of our report dated April 13, 2021, with respect to the consolidated balance sheets of ATA Creativity Global as of December 31, 2019 and 2020, the related consolidated statements of comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes, which report appears in the December 31, 2020 annual report on Form 20-F of ATA Creativity Global.

Our report refers to a change in the method of accounting for leases in 2019.

/s/ KPMG Huazhen LLP

Beijing, China  
April 13, 2021





金诚同达律师事务所

**JINCHENG TONGDA & NEAL**

10th Floor, China World Tower A, No. 1 Jianguo Menwai Avenue,  
Chaoyang District, Beijing, 100004, PRC  
Tel: (8610) 5706 8585; Fax: (8610) 8515 0267

April 13, 2021

ATA Creativity Global

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

No.39 Dong San Huan Zhong Road,

Chao Yang District, Beijing, 100022

Ladies and Gentlemen:

We have acted as legal advisors as to the laws of the People's Republic of China to ATA Creativity Global (the "Company"), in connection with the filing by the Company with the United States Securities and Exchange Commission of an annual report on Form 20-F for the fiscal year ended December 31, 2020.

We hereby consent to the use of our name under "Item 3. Key Information — D. Risk Factors", "Item 4. Information on the Company — A. History and Development of the Company" and "Item 8. Financial Information — A. Consolidated statements and other financial information" in the Company's annual report on Form 20-F for the fiscal year ended December 31, 2020.

Yours sincerely,

/s/Peng Jun

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Peng Jun

Partner

Jincheng Tongda & Neal

ATA Creativity Global  
1/F East Gate, Bldg. No.2, Jian Wai Soho  
No.39 Dong San Huan Zhong Road,  
Chao Yang District, Beijing, 100022

**Re: ATA Creativity Global**

April 13, 2021

Dear Sirs,

We are qualified lawyers of the People's Republic of China (the "**PRC**"), for the purpose of this legal opinion (the "**Opinion**"), excluding the Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan), and as such are qualified to issue legal opinions on the PRC laws, regulations or rules.

We are acting as the PRC counsel for ATA Creativity Global, an exempted company incorporated in the Cayman Islands with limited liability (the "**Company**"), in connection with the filing of its annual report on Form 20-F (the "**Annual Report**") for the fiscal year ended December 31, 2020 with the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

In rendering this Opinion, we have examined the originals or copies certified or otherwise identified to our satisfaction, of documents provided to us by the Company and such other documents, corporate records, certificates issued by Governmental Agencies (as defined below) in the PRC, by officers of the Company, and/or by the Group Companies (as defined below) and other instruments (the "**Documents**") as we have considered necessary, advisable or desirable for the purpose of rendering this Opinion. Where certain facts were not or may not be possible to be independently established by us, we have relied upon certificates or statements or representations issued or made by relevant Governmental Agencies of the PRC and the appropriate representatives of the Company and/or the PRC Companies with the proper powers and functions.

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In our examination of the Documents and for purpose of rendering this Opinion, we have assumed without further inquiry: (A) the genuineness of all signatures, seals and chops, and the authenticity of all documents submitted to us as originals and the conformity with authentic original documents submitted to us as copies; (B) the Documents as submitted to us remain in full force and effect up to the date of this Opinion, and have not been revoked, amended, revised, modified or supplemented except as otherwise indicated in such Documents; (C) the truthfulness, accuracy, fairness and completeness of Documents as well as all factual statements in the Documents; (D) that all information provided to us by the Company in response to our inquiries for the purpose of this Opinion is true, accurate, complete and not misleading and that the Company has not withheld anything that, if disclosed to us, would reasonably cause us to alter this Opinion in whole or in part; (E) other than in relation to the Control Agreements (as defined below), that all parties have the requisite power and authority to enter into, execute, deliver and perform the Documents to which they are parties; (F) other than in relation to the Control Agreements, that all parties have duly executed, delivered, performed, and will duly perform their obligations under the Documents to which they are parties; and (G) other than in relation to the Control Agreements, that all Documents are legal, valid, binding and enforceable under all such laws as govern or relate to them other than PRC Laws (as defined below).

This Opinion is rendered on the basis of the PRC Laws effective as at the date hereof. We do not purport to be an expert on, generally familiar with, or qualified to express legal opinions based on, any laws other than the PRC Laws. Accordingly, we express no opinion on the laws of any jurisdiction other than the PRC. Furthermore, there is no guarantee that any such PRC Laws will not be changed, amended or replaced in the immediate future or in the longer term with or without retrospective effect.

The following terms as used in this Opinion are defined as follows:

“ATA Education”	means ATA Education Technology (Beijing) Limited (formerly named as ATA Testing Authority (Beijing) Limited), a company incorporated under the PRC Laws of which 100% equity interest is indirectly owned by the Company.
“BVI Subsidiaries”	means ATA Testing Authority (Holdings) Limited, a company incorporated under the laws of British Virgin Islands of which 100% equity interest is directly owned by the Company; and ACG International Group Limited, a company incorporated under the laws of British Virgin Islands of which 100% equity interest is directly owned by the Company.
“Control Agreements”	means the agreements set forth in Item 4.A of the Annual Report headed “History and Development of the Company — Contractual Arrangements with ATA Intelligent Learning” and as listed in Schedule I of this Opinion.

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“Group Companies”	means the Company, BVI Subsidiaries, Xing Wei Institute (HongKong) Limited, the PRC Companies, Muhua Shangce Learning Data & Technology (Beijing) Limited, Beijing Huanquiyimeng Education Consultation Corp., Beijing Miusi Education Co., Ltd. and any other entities that are controlled directly or indirectly by any of the foregoing.
“Government Agency”	means any competent government authorities, courts, arbitration commissions or regulatory bodies of the PRC.
“Governmental Authorization”	means any approval, consent, permit, authorization, filing, registration, exemption, waiver, endorsement, annual inspection, qualification and license required by the applicable PRC Laws to be obtained from any Government Agency.
“Material Adverse Effect”	means any event, circumstance, condition, occurrence or situation or any combination of the foregoing that has or could be reasonably expected to have a material and adverse effect upon the conditions (financial or otherwise), business, properties or results of operations or prospects of the Group Companies taken as a whole.
“Initial Public Offering”	means the initial public offering of American depositary shares representing the Company’s ordinary shares as described in the prospectus for such offering dated January 28, 2008.
“PRC Laws”	means any and all laws, regulations, statutes, rules, decrees, notices and supreme court’s judicial interpretations currently in force and publicly available in the PRC as of the date hereof.
“PRC Companies”	means the PRC Wholly Owned Subsidiary, and the PRC Subsidiary.
“PRC Subsidiary”	means ATA Intelligent Learning (Beijing) Technology Limited (ATA Intelligent Learning), a company incorporated under the PRC Laws of which 90% of the equity interest is directly owned by Xiaofeng Ma and 10% of the equity interest is directly owned by Jun Zhang.
“PRC Wholly Owned Subsidiary”	means ATA Education.

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Based on the foregoing, after our due inquiry, we are of the opinion that:

- (i) *Corporate Structure.* The descriptions of the corporate structure of the PRC Companies and the Control Agreements set forth in the “Risk Factors,” “History and Development of the Company— Contractual Arrangements with ATA Intelligent Learning” and “Related Party Transactions” sections of the Annual Report are correct and accurate in all material respects and nothing has been omitted from such descriptions which would make the same misleading in any material respect.

We are of the opinion that, except as disclosed in the Annual Report, (A) the ownership structure of the PRC Companies as described in the Annual Report under the headings “Risk Factors,” “History and Development of the Company— Contractual Arrangements with ATA Intelligent Learning” and “Related Party Transactions” is and has been in compliance with all current PRC Laws; (B) except for the Equity Interest Pledge right under the Equity Interest Pledge Agreements listed in Schedule I (2) and (3) of this Opinion, each of the Control Agreements has been duly executed and delivered by each of the parties thereto and constitutes its or his binding obligations. Once the PRC Companies finish the registration of the Pledge with the AIC in accordance with Section 3.1 of Equity Interest Pledge Agreements, the above mentioned Equity Interest Pledge right will become effective; and (C) the contractual arrangements among ATA Education, the PRC Subsidiary and the shareholders of the PRC Subsidiary, established by the Control Agreements, individually and as a whole, are valid, legally binding and enforceable, and will not result in any violation of the PRC Laws currently in effect.

- (ii) *M&A Rules.* On August 8, 2006, six PRC regulatory agencies, namely, the PRC Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission (the “CSRC”), and the State Administration of Foreign Exchange of the PRC, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “**M&A Rules**”), which became effective on September 8, 2006 and were amended on June 22, 2009. The M&A Rules purport, among other things, to require offshore special purpose vehicles (the “**SPVs**”) formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled by PRC companies or individuals, to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange. On September 21, 2006, pursuant to the M&A Rules and other PRC Laws and regulations, the CSRC, on its official website, promulgated relevant guidance with respect to the issues of listing and trading of PRC domestic enterprises’ securities on overseas stock exchanges, including a list of application materials with respect to the listing on overseas stock exchanges by SPVs.
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We are of the opinion that as of the date hereof, the Company was not and is not required under the M&A Rules and other relevant PRC Laws to obtain the approval of the CSRC for the issuance and sale of the American depositary shares representing the Company's common shares or the listing of the Company's American depositary shares on Nasdaq in connection with the Initial Public Offering, because (1) the Company established the PRC Wholly Owned Subsidiary as a foreign-invested enterprise by means of direct investment and not through a merger or acquisition of the equity or assets of a "PRC domestic company" as such term is defined under the M&A Rules, and (2) there is no provision in the M&A Rules that clearly classifies contractual arrangements described under "History and Development of the Company— Contractual Arrangements with ATA Intelligent Learning" and "Related Party Transactions" sections of the Annual Report as the type of merger and acquisition transaction falling under the M&A Rules.

This Opinion is rendered to you and is intended to be used in the context which is specifically referred to herein and solely for the benefit of the Company in connection with its Annual Report filing and each paragraph should be looked at as a whole and no part should be extracted and referred to independently.

We hereby consent to the filing of this Opinion with the U.S. Securities and Exchange Commission as an exhibit to the Annual Report and to the use of and references to our name and this Opinion and its contents under the sections headed "Risk Factors", "Regulation", "History and Development of the Company", "Consolidated statements and other financial information" and other sections of the Annual Report.

Yours faithfully,

/s/Jincheng Tongda & Neal Law Firm

Jincheng Tongda & Neal Law Firm

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## **SCHEDULE I**

### **List of Control Agreements**

- (1) Exclusive Technical Consulting and Services Agreement, dated as of March 15, 2018, among ATA Intelligent Learning (Beijing) Technology Limited and ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited).
  - (2) Equity Interest Pledge Agreement, dated as of March 15, 2018, among ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited) and Xiaofeng Ma.
  - (3) Equity Interest Pledge Agreement, dated as of August 12, 2020, among ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited) and Jun Zhang.
  - (4) Loan Agreement, dated as of March 15, 2018, between ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited) and Xiaofeng Ma.
  - (5) Loan Agreement, dated as of August 12, 2020, between ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited) and Jun Zhang.
  - (6) Call Option and Cooperation Agreement, dated as of August 12, 2020, among ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited), Xiaofeng Ma, Jun Zhang, and ATA Intelligent Learning (Beijing) Technology Limited.
  - (7) Power of Attorney, dated as of March 15, 2018, between Xiaofeng Ma and ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited).
  - (8) Power of Attorney, dated as of August 12, 2020, between Jun Zhang and ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited).
  - (9) Payment Instructions for the Loan Agreement, dated as of April 3, 2018, between Xiaofeng Ma and ATA Testing Authority (Beijing) Limited (renamed as ATA Education Technology (Beijing) Limited).
  - (10) Supplemental Agreement to ATA Intelligent Learning VIE Agreements, dated as of March 19, 2019, among ATA Education Technology (Beijing) Limited (formerly named as ATA Testing Authority (Beijing) Limited), Xiaofeng Ma, Haichang Xiong, and ATA Intelligent Learning (Beijing) Technology Limited.
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- (11) Supplemental Agreement II to ATA Intelligent Learning VIE Agreements, dated as of April 20, 2019, among ATA Education Technology (Beijing) Limited (formerly named as ATA Testing Authority (Beijing) Limited), Xiaofeng Ma, Haichang Xiong, and ATA Intelligent Learning (Beijing) Technology Limited.